

Pensions Audit Sub Committee

2.00 p.m., Tuesday, 29 September 2015

Pension 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.

As anticipated, the information demands of accurate record-keeping have increased with the introduction of a scheme based on career average revalued earnings (CARE) in 2015.

In accordance with its Pension Administration Strategy, the Fund continues with its efforts to improve the flow of data from employers through regular reporting and liaison.

The end of contracting-out in 2016 requires the Fund to reconcile membership data with HMRC.

Links

Coalition pledges

Council outcomes [CO26](#)

Single Outcome Agreement

Pension Administration Data Quality

Recommendations

Committee is requested to:

- 1.1 Invite the Pension Board to raise any relevant matters or concerns which the Committee should consider.
- 1.2 Note the report and highlight any points it would like to raise at the Pensions Committee on 30 September 2015.

Background

- 2.1 In previous years, Pensions Audit Sub-Committee has noted reports on the ongoing work to enhance the quality of pension administration membership record data. These have 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 2015, 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 information from employers to the Fund, serving to increasing efficiency and reducing the risk of manual errors.
- 2.4 The Pension Administration Strategy (PAS) includes 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. Criteria for passing on costs of poor performance by employers consist of any of the following;
 - Contributions received later than the regulatory standard;
 - Not regularly addressing membership data queries;
 - Consistently failing to meet service standards for new starts, leavers, retirements and deaths, and no clear commitment to improve; and
 - Not submitting monthly contributions for each member via the secure portal, or no clear commitment to implement such, before 1 April 2016.

Pension Administration Strategy (PAS) performance 2015-16

- 3.1 The Fund sets out standards for provision of data from employers in an agreed Pensions Administration Strategy. At present, 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. Quarterly reports are issued to the four Councils and also on an exception basis to any employer whose performance merits specific intervention. The Fund is seeking to improve its performance measurement systems in order to provide more frequent, detailed information to all employers.
- 3.2 Overall Employer performance for the first quarter of 2015/16 is shown below, with 2014/15 shown for comparison purposes.

Employer performance		Quarter 1; 2015/16			2014/15		
Case type	Target (working days)	Number received	Number within target	% within target	Number received	Number within target	% within target
New Starts	20	972	903	93%	4741	3631	76%
Leavers	20	564	292	52%	2430	1189	48%
Retirements	20	233	104	45%	931	373	40%
Deaths in Service	0	9	1	11%	29	7	24%

- 3.3 Good progress is being made in the receipt of new start information, as familiarity with the secure data transmission portal becomes embedded in employer payroll teams. This quarter has also seen a welcome improving trend in the supply of leavers and retirements data within target timescales. Information, however, continues to be received later than target for a significant proportion of these cases.
- 3.4 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.
- 3.5 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.

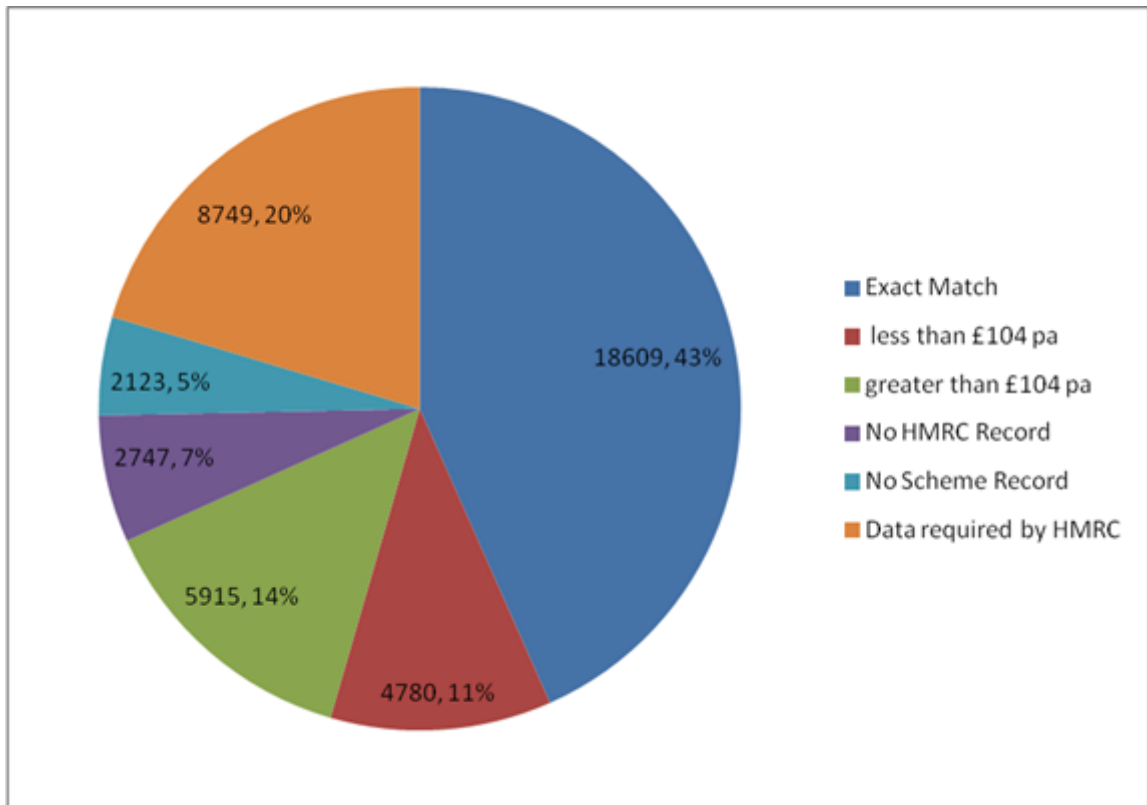
Monthly Contribution Return (MCR) position

- 3.6 As Committee is aware, the Fund's data transmission portal facilitates reconciliation of pension contribution payments by employers to member individual records. By this means, any missing information, for example, new member and leaver as well as mismatches of member working hours, can be identified on a monthly basis.
- 3.7 At present, 73 employers from a total active membership of 100 are currently submitting monthly contribution returns, an increase of 11 on the same period last year. As a percentage of the Fund's employee members, this equates to 59%. Whilst this is positive, there remains much to be done to achieve full compliance by the target date of 1 April 2016.
- 3.8 This total (of 73) will shortly be supplemented by Midlothian Council. This employer did provide monthly contributions in 2014/15 but delays were experienced in 2015/16 in refining its data extract reporting from the employer payroll system to provide the full requirements of the new career average Local Government Pension Scheme (LGPS).
- 3.9 For Councils, where typically one employee may be hold multiple posts, Committee is reminded that there is an initial requirement to amend data extract reporting from employer payroll systems to match the portal. A unique pensions identifier reference number is already embedded in the portal to address this complication. Otherwise some degree of data manipulation is required.
- 3.10 For these reasons and the prioritisation of payroll staffing resources to other projects, West Lothian Council has reverted to the position where it will not provide monthly contribution returns pending suitable amendment to its payroll extract reporting. A revised target date for implementation is awaited.
- 3.11 East Lothian Council is now committed to introducing the MCR and the Fund expects this to be achieved for commencement on 1 April 2016.
- 3.12 Other employers with sizeable memberships and yet to provide monthly reconciliation data include Edinburgh College, Scottish Fire and Rescue Service, Scottish Police Services Authority, Enjoy East Lothian, West Lothian College and West Lothian Leisure.
- 3.13 This matter will continue to be pursued and Pensions Committee will be updated as to progress towards the target date of 1 April 2016.

GMP reconciliation:

- 3.14 Following the end of contracting-out of the Second State Pension (S2P) on 5 April 2016, HMRC will be sending a statement to all individuals affected stating the amount of Guaranteed Minimum Pension (GMP) they will receive and who is responsible for paying it. As implied, GMP is the underpin that guarantees benefits will be no lower than the additional state pension a member would have accrued had their pension not contracted out.

- 3.15 This will commence in early 2018 and be concluded by 31 December 2018. Ahead of this, pension schemes need to reconcile the GMP values they hold for members with those calculated by HMRC.
- 3.16 Incorrectly calculated GMPs can result in over or underpayment of benefits. The root of the problem is that different levels of indexation are applied to the GMP element of a member's pension compared to the balance. So increases based on the wrong GMP split will be incorrect and the impact of these errors can increase over time. As an indication of the scale of the problem, a National Audit Office investigation into five of the biggest public sector schemes found GMP calculation errors had led to more than £90M in overpayments.
- 3.17 From April 2014, HMRC has been offering a Scheme Reconciliation Service. This allows pension schemes to reconcile the contracted-out membership and GMP information against the information held on HMRC records. HMRC, however, will begin winding down its reconciliation service from April 2016. Once HMRC stop holding GMP records from 31 December 2018, schemes will be obliged to pay whatever GMPs are attributed to them, even those that may be incorrectly calculated or that have actually been transferred out. A reconciliation exercise may take up to three years to complete for a typical Local Government Pension Scheme (LGPS) fund, this gives a limited window to make sure records tally with HMRC.
- 3.18 The three funds, Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund, have all registered for the HMRC reconciliation service and GMP data for all three has been received. Reconciliation work is now ongoing for all three funds.
- 3.19 Decisions will be required in terms of any degree of tolerance applied to the reconciliation and any recovery of identified overpayments. Communication of future adjustment to pension payments to members will also be necessary. There is an inherent risk of reputational damage to the Fund should the process be applied inconsistently or should there be any lack of clarity in communication to members or other stakeholders.
- 3.20 A summary of the current position of the reconciliation of member records is shown below:



3.21 An initial assessment is that, subject to there being no unanticipated issues arising from HMRC on receipt of the further data, the Fund appears to be in relatively well positioned to be able to meet the reconciliation deadline.

3.22 An update on the GMP reconciliation will be provided to a future meeting of the Committee.

Other data quality initiatives

3.23 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”.

Mortality screening and member tracing

3.24 Utilising the Glasgow City Council framework agreement, in Lothian Pension Fund contracted with Tracesmart Limited for the provision of mortality screening and address tracing services. In late 2014, mortality screening was undertaken for approximately 27,900 pensioners and 15,400 deferred members. This identified approximately 80 deaths which the Fund had not been aware of. This enabled the payment of requisite death grants, spouses’ pensions and also clearance of a number of suspended pensions. Address tracing was commissioned in respect of approximately 2,900 currently untraced deferred members. The data received, however, simply confirmed that the members were not resident at the addresses held. A validation against the Pensions Regulator’s common data requirements was also supplied but again this did not provide any additional insight to that from internal procedures. It is the intention to undertake

a further mortality screening this year and also an address tracing exercise for 365 members for whom refund of pension contributions are payable (frozen refunds).

- 3.25 Lothian Pension Fund also continues to utilise the “FindMyLostPension.com” service on an extended trial basis. 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 schemes too). From commencement in November 2013, 21 successful matches to member records have been made through this route.

Local Government Association (LGA) National Insurance number database

- 3.26 LGA is currently undertaken preparatory steps to establish a central National Insurance number database of members for the LGPS. This database will have two main purposes, firstly to seek to prevent the payment of duplicate death grants across funds, which is a requirement in the new LGPS. Secondly, this database should facilitate the LGPS joining the Tell Us Once service. This should provide a simpler process for notification of deaths in the Scheme for both administering authorities and the next of kin of Scheme members.

Longevity monitoring and data quality assurance - “Club Vita”

- 3.27 Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund 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.
- 3.28 As at the last annual report in November 2014, 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”.
- 3.29 Within a peer group of the LGPS, the Lothian Pension Fund data was “amongst the best for deferred pensioners with correct and complete postcodes, and actives with correct and complete postcodes”. This comment was echoed for Lothian Buses Pension Fund, supplemented by “and reliable pensions for pensioners and dependants”.

Actuarial Valuation 2014 – Data quality assessment

- 3.30 Comments by the actuary in respect of the quality of data for the Lothian Buses Pension Fund and Scottish Homes Pension Fund were reported to Pensions Committee in September 2014, prior to the assessment for Lothian Pension Fund being received. The actuary's verdict for Lothian Pension Fund was "In general, 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 0.8% at a whole fund level. The comparison to the pensions paid in your accounts and from the data was within 0.3%".

Data Quality enhancement – performance measurement

- 3.31 From within the Pensions and Accounting staff resources, a project team has been established to co-ordinate the continuing drive to enhance the quality of pension administration records and general management information. Performance measurement improvement is a focus, with a best practice model identified from the London Pension Funds Authority.

Measures of success

- 4.1 Data quality performance standards are measured against best practice guidance from the Pensions Regulator and included in the Annual Report of the Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund.

Financial impact

- 5.1 There are no direct financial implications as a result of this report. Indicative costs of future participation in the LGA National Insurance database and the Tell Us Once project are in the region of £5,000 and these can be contained within the overall Fund budget.

Risk, policy, compliance and governance impact

- 6.1 There are no adverse risk, policy, compliance or governance impacts arising from this report. Poor data quality of member records, of course, does represent an inherent risk. This report advises of measures taken to mitigate this risk and ensure compliance with guidance from The Pensions Regulator.

Equalities impact

- 7.1 There are no adverse equality 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 Pension Board, comprising employer and member representatives, is integral to the governance of the Funds.

Background reading/external references

None.

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Links

Coalition pledges

Council outcomes CO26 - The Council engages with stakeholders and works in partnerships to improve services and deliver agreed

Single Outcome Agreement

Appendices