

Pensions Audit Sub Committee

2.00 p.m., Tuesday, 27 September 2016

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.

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.

Links

Coalition pledges

Council outcomes [CO26](#)

Single Outcome Agreement

Pensions 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 28 September 2016.

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. The information demands of accurate record-keeping increased with the introduction of a scheme based on career average revalued earnings (CARE) in 2015.
- 2.2 As stated in the Lothian Pension Fund's Annual Report 2016, the pension 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 Fund sets out standards for provision of data from employers in an agreed Pensions Administration Strategy (PAS). It 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 2017.

Pension Administration Strategy (PAS) performance 2016/17 to date

- 3.1 Fund-wide performance against PAS standards is reported each year in the Annual Report. Annual reports are issued to each employer outlining their own performance and comparing this to other employers of a similar size. Quarterly reports are also issued to the four councils and also on an exception basis to any employer whose performance merits specific intervention.
- 3.2 Overall Employer performance for the first quarter of 2016/17 is shown below, with 2015/16 shown for comparison purposes.

Employer performance		Quarter 1; 2016/17			2015/16		
Case type	Target (working days)	Number received	Number within target	% within target	Number received	Number within target	% within target
New Starts	20	1148	950	83%	4653	4074	88%
Leavers	20	744	298	40%	2377	1207	51%
Retirements	20	376	125	33%	1156	398	34%
Deaths in Service	10	13	8	62%	40	11	28%

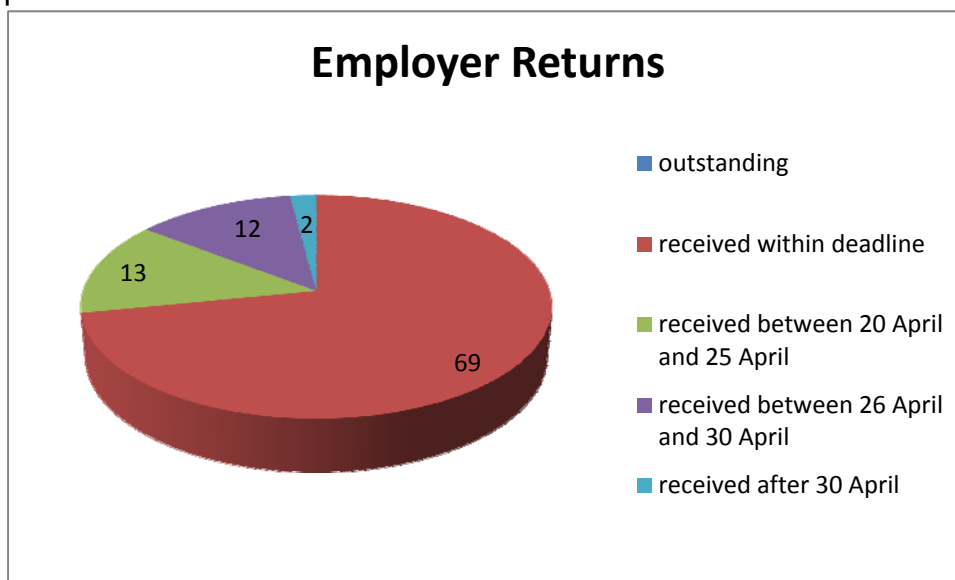
- 3.3 Overall, performance shows a continuation of poor employer performance in the first quarter of this year particularly for retirements and leavers.
- 3.4 The receipt of new start information through the secure data transmission portal is generally good, although the recent drop in performance is disappointing. This can be attributed to poor performance by a single employer. Missing records were identified via the monthly contribution return process and details requested. Performance for other Fund employers, excluding this specific issue, over the same period is 91%.
- 3.5 The marked deterioration in the performance for leavers in the first quarter of 2016/17 is primarily due to the significant voluntary staff release programme of the City of Edinburgh Council (CEC). In the quarter, excluding CEC there were:
- 500 leavers, 52% of which were received within target;
 - 156 retirements, of which 66% were received within target.
- 3.6 As in previous years, senior officers from the Fund are in the process of holding annual meetings with large employers and these meetings will include discussion of the performance to highlight the key areas where improvement is required. Discussions have highlighted frustration over late notification of retirements and leavers by line managers to HR/ Payroll staff. The Fund has offered to help draft communications to attempt to increase awareness of the lead-in time required for retirements. Regular meetings will continue with key Fund employers.

Monthly Contribution Return (MCR) position

- 3.7 As Committee is aware, the Fund's data transmission portal facilitates reconciliation of pension contribution payments by employers to member individual records on a monthly basis. By this means, any missing information, for example, new member and leaver as well as mismatches of member working hours, can be identified promptly. The introduction of MCR is a significant step in improving data quality and improving the service to members.
- 3.8 At present, 93 employers from a total active membership of 96 (96.9%) are submitting monthly contribution returns. Of the returns received, typically these are being provided within the requisite timescale, 92.7% for the first four months of 2016/17.
- 3.9 Three employers have not yet submitted monthly contribution returns. These are:
- Scottish Police Authority, in respect of the former Scottish Police Services Authority;
 - Scottish Fire and Rescue Service;
 - South East of Scotland Transport Partnership (SEStran).

Annual Benefit Statement 2016 – data returns from employers

- 3.10 The following graph shows that 69 employers provided their year-end returns by 19th April with a further 25 making a submission before 30th April. Two employers provided returns later than this date.



- 3.11 Further validation of records was undertaken by the Fund, including liaison with employers on selected queries.

- 3.12 Annual Benefit Statements (ABS) for active members, both employees and Councillors, were issued by the statutory deadline of 31 August 2016. 31,119 statements were generated, including 107 Councillors. A further 24 member records did not have a statement generated owing to missing pay information. These cases are being investigated with the respective employers as a priority and on receipt of the requisite data, a benefit statement will then be issued. In total, therefore, for active member records held, 31,119 from a total of 31,143 (99.9%) were issued by the due date.
- 3.13 The Fund has received contributions in respect of 135 City of Edinburgh Council employees during the 2015/16 year. Since no information has been provided by the employer for these new members, the Fund is unable to provide benefit statements. The Fund is working with the City of Edinburgh Council team to ensure that this data is received and relevant records established.
- 3.14 ABS 2016 was also issued to deferred members of the Fund. 14,314 statements were sent, representing 85.1% of the total deferred records. The balance of these records, 2,508 (14.91%) reflects members for whom the Fund does not hold a correct current home address. Efforts will continue to be made to trace these individuals.

Pension Administration Strategy (PAS) performance 2016-17 – recovery of cost arising from unsatisfactory data transmission by employers

- 3.15 The PAS stipulates that failure by an employer to provide the Fund with a year-end return by 19th April each year shall incur a £200 initial fee plus 5p per active member per working day from 20 April to date return is received. Committee is reminded, however, that it previously accorded dispensation such that, for the 2015/16 year, charges would only be levied where fully completed returns were not provided by 30 April 2016.
- 3.16 In accordance with the PAS, therefore, two employers have been fined due to late submission of their year-end data.
- 3.17 The contractor, ISS UK Limited, provided its return on 10 May 2016 and therefore incurred a fine of £200.30 plus VAT. Scottish Police Authority did not provide its year-end data until 9 August 2016 and therefore incurred a fine of £1,533.20 plus VAT.
- 3.18 The PAS also provides for cost recovery by the Fund from an employer should it not submit Monthly Contribution Returns by the due date, the specific provision being “£50 fee per occurrence plus 5p per active member. Charges to be levied on an annual basis at the discretion of the Fund from April 2016.” The three employers who have not done so (as at paragraph 3.12) will be subject to this recovery of costs incurred.

GMP reconciliation:

- 3.19 Committee is reminded that, 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.

- 3.20 As different levels of indexation are applied to the GMP element of a member's pension compared to the balance, any incorrectly calculated GMPs can result in over or underpayment of benefits. Ahead of the UK Government's deadline of December 2018, pension schemes need to reconcile the GMP values they hold for members with those calculated by HMRC. Such work is now ongoing for all three funds, with the current position being that 54% of relevant records align, within acceptable tolerance, to those held by HMRC. HMRC has now committed to a turnaround time of three months following receipt of data returns from pension funds and therefore the Fund is hopeful of making significant progress towards reconciliation over the coming months.
- 3.21 At present all inflationary increases on pre1988 GMP and above 3% on post 1988 GMP are met through the state pension. On 1 March 2016, HM Treasury announced that public service pension schemes will be responsible for paying full pensions increases on both the pre and post 1988 GMP (for the life of that member and any subsequent dependents) for members who reach State Pension age between 6 April 2016 and 5 December 2018. This will represent a funding burden for employers in the Local Government Pension Scheme and will be assessed at the 2017 actuarial valuation.
- 3.22 Importantly, the Government will also take forward a public consultation on the indexation of GMPs for members who reach State Pension age after 5 December 2018. This has more significant implications not only as regards a potential further local government funding pressure. This may also limit the value of detailed GMP reconciliation.

Other data quality initiatives, including mortality screening and tracing

- 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". Also, the Fund continues to have access to the supplier framework contract for the provision of mortality screening and address tracing services.

Local Government Association (LGA) National Insurance number database and "Tell Us Once" service

- 3.24 As previously advised to Committee, LGA has now established a central database of National Insurance numbers of members for the LGPS. It has two main purposes. The first is to prevent the payment of duplicate death grants across funds, which is a requirement in the new LGPS. Secondly, it has enabled the LGPS joining the Tell Us Once service which provides a simpler process for notification of deaths in the Scheme for both administering authorities and the next of kin of Scheme members. Lothian Pension Fund is committed to both initiatives and it is anticipated that it will become an active participant very shortly, pending installation of the necessary software.

Longevity monitoring and data quality assurance - “Club Vita”

- 3.25 Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund participate in “Club Vita”, which is a specialist company providing 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.
- 3.26 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 pensioners and dependants with correct and complete postcodes”. The smaller Lothian Buses Pension Fund was similarly praised “...amongst the best for deferred pensioners with correct and complete postcodes, and reliable salary at retirement / exit for pensioners”.

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.

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

Hugh Dunn

Acting Executive Director of Resources

Contact: John Burns, Chief Finance Officer

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 partnerships to improve services and deliver agreed objectives

Single Outcome Agreement

Appendices