

Pensions Audit Sub Committee

2.00pm, Monday, 11 December 2017

Pensions Administration Data Quality

Item number	5.3
Report number	
Executive/routine	
Wards	All
Council Commitments	Delivering a Council that works for 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, compensation claims from members and fines from regulators, 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.

Pensions Administration Data Quality

1. Recommendations

Committee is requested to:

- 1.1 Note and be assured by the report and highlight any points it would like to raise at the Pensions Committee on 12 December 2017.

2. 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 2017, 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.
- 2.5 Committee is reminded that, following the end of contracting-out of the Second State Pension (S2P) on 5 April 2017, 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. 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.

3. Main report

Pension Administration Strategy (PAS) performance 2017/18 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 two quarters (cumulative) of 2017/18 is shown below, with 2016/17 shown for comparison purposes.

Employer performance		Quarters 1 and 2 ; 2017/18			2016/17		
Case type	Target (working days)	Number received	Number within target	% within target	Number received	Number within target	% within target
New Starts	20	2,201	1,974	90%	4,764	4,074	86%
Leavers	20	889	433	49%	3,425	1,421	42%
Retirements	20	541	218	40%	1,244	440	35%
Deaths in Service	10	15	7	47%	29	21	72%

- 3.3 Overall, the results show a continuation of poor employer performance in the first half of this financial year, particularly for retirements and leavers. That said, there is a small improvement for both categories as compared to the year 2016/17.
- 3.4 The poor performance for leavers in 2016/17 and in the first two quarters of this year is primarily due to the voluntary staff release programme of the City of Edinburgh Council (CEC). Significant numbers of leavers were identified only through the year-end process, given the data matching difficulty arising from the lack of a stable "Unique Pension Record Identifier", as previously reported to Pensions Committee on 20 March 2017. Similar issues prevailed in respect of Midlothian Council. Excluding these two major employers, there were:
- 513 leavers, 59% of which were received within target;

- 306 retirements, of which 57% were received within target.
- 3.5 The receipt of new start information through the secure data transmission portal is generally good. Missing records were identified via the monthly contribution return process and details requested.
- 3.6 As in previous years, senior officers from the Fund will be holding annual meetings with large employers and these meetings will include discussion of the performance to highlight the key areas where improvement is required. Previous meetings have revealed that there is continued frustration over late notification of retirements and leavers by line managers to HR Payroll staff and the Fund has offered to help draft communications to attempt to increase awareness of the lead-in time required for retirements.

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, leaver, or mismatch 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 the start of the year, the Fund had 96 employers with active memberships. As at 30 September 2017, this had reduced to 92. Of these, 91 employers are submitting monthly returns and, for the first quarter, 93% of such returns were provided within the requisite timescale. The sole employer which does not yet not provide MCR is Scottish Fire and Rescue Service (SFRS). The Fund has been in regular contact with SFRS to expedite matters and has made known its frustration with the delay. This is particularly so given that the Fund originally advised employers of its MCR requirements in late 2015 and also the payroll system used by SFRS is supplied by the same provider as two of the Fund's largest Council employers. The Fund has received assurance that SFRS is engaged in dialogue with its payroll supplier to affect the necessary system amendments and a target date for completion by Christmas 2017 has been advised by SFRS.
- 3.9 In addition to SFRS, the "Pension Administration Data Quality" report, which was considered by Pensions Audit Sub Committee on 27 September 2016, identified two other employers which had yet to supply MCR. An update of progress is that:
- a. SEStran provided 12 returns for the 2016/17 year in April 2017. Since then, it has provided MCR within the requisite timescales.
 - b. Scottish Police Authority commenced providing monthly returns in September 2017 and to-date the Fund has received files for April to July 2017.
- 3.10 For the first half of 2017/18, to-date the Fund has posted member basic contributions of £18,696,914.03 (84.6% of total payment received) and recorded a Career Average Revalued Earnings (CARE) pensionable pay of £299,571,898.15 (84.2% of total CARE pay earned). Currently, the Fund has been unable to post

contributions (£2,558,126.51) and pay (£41,996,187.58) for The City of Edinburgh Council for August and September 2017. This reflects a residual issue with undesired volatility in the Unique Pensions Record Identifier in the recording of the backdated pay award in August's return. A revised file has been requested and is currently being actioned.

City of Edinburgh Council – pension record identifier and resulting backlog of data queries

- 3.11 As Pensions Committee is aware, a significant backlog of data queries has arisen owing to the inherent but undesired variability in the City of Edinburgh Council's payroll "position identifier" also being the identifier for pension records. To that end, the Head of Human Resources, City of Edinburgh Council, who has been assigned responsibility for the payroll function, has committed to secure suitable resources to address this as a priority. It is expected that the payroll system solution to provide requisite stability in the Unique Pension record Identifier should be delivered at pace. An oral update will be provided to Pensions Audit Sub-Committee.

Annual Benefit Statement 2017 – data returns from employers

- 3.12 As previously reported to Pensions Committee at its meeting on 27 September 2017, 49,051 annual benefit statements were produced by the statutory deadline of 31 August 2017, representing 99.9% of records where current member address details were held.

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

- 3.13 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.
- 3.14 In accordance with the PAS, therefore, seven employers will be issued with fines due to late submission of their year-end data.
- 3.15 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 two employers who have not done so (as at paragraphs 3.8 and 3.9 above) will be subject to this recovery of costs incurred.

Actuarial Valuation as at 31 March 2017

- 3.16 A detailed report on the assessment of the quality of the pension member record data provided for the Actuarial Valuation 2017 for each of the three pension funds, Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund is expected shortly. An oral update will be provided to Pensions Audit Sub-Committee.
- 3.17 The Actuary, however, commented at the Fund's annual employer seminar on 2 November 2017, that the data submission was of very good quality and compared

most favourably to other Funds within the Local Government Pension Scheme (LGPS). None of the serious data concerns, evident from the Actuarial Valuation as at 31 March 2016 for the LGPS funds in England and Wales, were encountered.

Guaranteed Minimum Pension (GMP) reconciliation

- 3.18 Data analyses to reconcile the GMP records held by the Fund to those of HMRC is now well underway. The current position being that 64% of relevant records align, within acceptable tolerance, to those held by HMRC. This progress is considered satisfactory, in the context of a deadline for full reconciliation by December 2018, although much work remains to be done.
- 3.19 The UK Government has not yet responded to its public consultation on the indexation of GMPs for members who reach State Pension Age after 5 December 2018.

Other data quality initiatives, including mortality screening and tracing

- 3.20 Matching our records to the General Registrar's Office for Scotland, Disclosure of Death Information (Scottish GRO) and also the National Fraud Initiative (NFI) were covered separately in the report "Fraud Prevention", which was considered by the Pensions Audit Sub-Committee, at its meeting on 26 September 2017. In this context, it should be noted that the quarterly GRO mortality validation has been postponed, pending establishment of an enhanced secure data transfer portal. The "Fraud Prevention" report also encompassed the Local Government (LGA) National Insurance number database and the "Tell Us Once" death notification service. In addition, the Fund continues to use mortality screening and address tracing services.

Longevity monitoring and data quality assurance - "Club Vita"

- 3.21 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.
- 3.22 As at the recent annual report in October 2017, data quality compared very favourably with other funds. Club Vita's commercial confidentiality constraints, however, do not permit more detailed disclosure.

Management information and data quality monitoring

- 3.23 The Fund intends to enhance its management information and facilitate greater transparency as to its data quality provision. This will include regular use of the actuarial valuation portal and also analyses of compliance with the Pension Regulator's standards, through a similar tool being developed by suppliers of pension administration software systems. Given the focus on resolution of data

issues referred to elsewhere in this report, progress on improved statistical reporting has been delayed.

4. 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.

5. Financial impact

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

6. 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.

7. Equalities impact

- 7.1 There are no equalities implications as a result of this report.

8. Sustainability impact

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

9. Consultation and engagement

- 9.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the Fund and they are invited to comment on the relevant matters at Committee meetings.

10. Background reading/external references

- 10.1 None

Stephen S. Moir

Executive Director of Resources

Contact: John Burns, Chief Finance Officer, Lothian Pension Fund

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

11. Appendices

None.