

# Pensions Audit Sub Committee

2.00pm, Tuesday, 25 September 2018

## Pensions Administration Data Quality

Item number	5.4
Report number	
Executive/routine	
Wards	All
Council Commitments	<a href="#">Delivering a Council that works for all</a>

### Executive Summary

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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

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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 26 September 2018.

### 2. Background

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- 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.
- 2.2 The information demands of accurate record-keeping increased with the introduction of a scheme based on career average revalued earnings (CARE) in 2015. The Pensions Regulator expects that an administering authority should:
  - set out responsibilities to scheme employers clearly;
  - escalate any non-compliance to senior management (of the employers);
  - utilise the ability to impose (recovery of cost) charges;
  - report individual scheme employers where their failure has caused a statutory breach.
- 2.3 As stated in the Lothian Pension Fund's Annual Report 2018, the pension funds are fully compliant with best practice as defined by the Pensions Regulator's guidance on record-keeping.
- 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.

- 2.5 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.
- 2.6 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 2018/19 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 2018/19 is shown below, with 2017/18 shown for comparison purposes.

Employer performance		Quarter 1 ; 2018/19			2017/18		
Case type	Target (working days)	Number received	Number within target	% within target	Number received	Number within target	% within target
New Starts	20	1,428	928	65%	1,066	988	93%
Leavers	20	1,140	473	42%	207	114	55%
Retirements	20	299	118	40%	312	142	46%
Deaths in Service	10	4	3	75%	8	4	50%

- 3.3 Overall, the results show a continuation of poor employer performance in the first quarter of this financial year, particularly for retirements and leavers.
- 3.4 The performance levels reported for starters and leavers in the first quarter of this year is primarily due to the Fund identifying a number of missing new start records and early leavers from City of Edinburgh Council (CEC). These were identified

through the year-end process. Similar issues prevailed in respect of Midlothian Council. Excluding these two major employers, there were:

- 640 new starts, 86% of which were received within target;
- 470 leavers, 50% of which were received within target;
- 157 retirements, of which 51% were received within target.

3.5 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 an ongoing concern from employers over late notification of retirements and leavers by line managers to HR and Payroll staff, which consequently impacts upon notification to the Fund in a timely manner. Ongoing work in this area will continue across all employers and the Lothian Pension Fund has offered to help draft communications to enhance awareness of the lead-in times required for retirements.

### **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 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.

3.7 At the end of 2017/18 the Fund had 92 employers with an active membership and all employers submitted monthly returns. During the year, 95% of monthly returns were received within the requisite timescale. The Scottish Fire and Rescue Service, the last employer to commence submitting monthly returns, did so with effect from November 2017. For the first quarter of 2018/19, the number of employers with an active membership had reduced to 89 and 97% of monthly returns were received by the due date.

3.8 A total of £44,778,399.38 basic member contributions was paid over to the Fund for the year 2017/18. To-date, 99.74% has been recorded against members' records. The Fund was also advised of a total pensionable pay of £727,257,417.46 and 99.48% has been recorded against members' records.

### **City of Edinburgh Council – pension record identifier issues and impact**

3.9 The Fund continued to experience additional workload as a result of the City of Edinburgh Council's payroll "position identifier" also being the identifier for pension records. A solution to report using a static pension reference has been implemented and applied to the monthly return with effect from June 2018.

### **Annual Benefit Statement 2018 – data returns from employers**

3.10 A total of 51,156 annual benefit statements were produced by the statutory deadline of 31 August 2018, representing 100% of records where current member address details were held. Included in the total number of statements issued are 170 members where we have been unable to produce a benefit statement. We

have however written to these members advising them of the situation and directing them to My Pension Online.

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

- 3.11 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. By the deadline of 19 April 2018, 89 employers had provided data, of which 22 were returned due to errors. Corrected data was provided, however 9 of these corrected returns were received after the deadline.
- 3.12 One employer missed the deadline, despite repeated reminders being issued. The return was received on 7 June 2018, and in accordance with the PAS, therefore, this employer has been issued with a fine. This is an improvement from last year when 7 employers were issued with fines for later submission.

**Actuarial Valuation as at 31 March 2017**

- 3.13 Detailed reports 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 were received from the Fund Actuary in March 2018
- 3.14 For all three Funds, the Actuary commented that ‘In general, the data was of good quality and we believe that it is fit for the purpose of the valuation.’ The Actuary reconciles membership data to information recorded in the relevant Fund accounts. The results of these reconciliations are shown below:

	<b>Employee Contributions paid for 2016/17 (implied by membership data)</b>	<b>Pensions Paid in 2016/17 (implied by membership data)</b>
Lothian Pension Fund	Reconciled to around 1.8% of those recorded in accounts	Reconciled to around 0.1% of those recorded in accounts
Lothian Buses Pension Fund	Reconciled to around 0.6% of those recorded in accounts	Reconciled to around 0.5% of those recorded in accounts
Scottish Homes Pension Fund	Not applicable	Reconciled to around 1% of those recorded in accounts

**Guaranteed Minimum Pension (GMP) reconciliation**

- 3.15 Data analyses to reconcile the GMP records held by the Fund to those of HMRC is continuing. In contrast to many other Funds which have opted to outsource, this

reconciliation and subsequent member communication is being undertaken entirely in-house. The current position is that 93% of relevant records align, within acceptable tolerance, to those held by HMRC. This progress is considered very satisfactory, in the context of a deadline for full reconciliation by December 2018, although it is recognised that further work remains to be done.

#### **Other data quality initiatives, including mortality screening and tracing**

- 3.16 To prevent fraud and overpayments of pension, the Fund takes part in the National Fraud Initiative and has also restarted quarterly mortality validation with the National Records of Scotland. The Fund also continues to utilise the “Tell Us Once” death notification service and the Local Government (LGA) National Insurance number database.
- 3.17 As part of the process for issuing annual pension forecasts, we carried out an exercise to trace members for whom we do not hold a current address. In May 2018, details of 2,974 members (including 178 pensioners) were passed to an external tracing service. The results showed that 64 of these members were deceased and also provided a new address (or confirmation of the address held) for 1,071 members. The Fund has written to each of these members for confirmation. Responses have been received from 722 members and addresses updated. The updates to pensioner addresses has also enabled suspended pensions to be reinstated.
- 3.18 The Fund has been participating as a Founder Authority in the Member Data Services National Local Government Pension Scheme Framework.
- 3.19 The Fund will use the Framework to award an initial contract in respect of Pension Fund Address Tracing and Mortality Screening Services.
- 3.20 In addition to improving records the service will improve the effectiveness of the communication between the Fund and Scheme members. This will allow the Fund to notify deferred members timeously about payment of retirement benefits. It will also enable the Fund to check the existence of members, thus avoiding overpayment of benefits where pensioner members have died, and for deferred pensioners enabling dependant benefits to be put into payment.

#### **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 last 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 Pensions Regulator (TPR) requires measurement of the presence of member data items important to the administration of a pension scheme. This has been split into two sets, “common data” which is applicable to all schemes and “conditional data” which is dependent on scheme specific type and design. For its Annual Report 2018, the Fund quoted common and conditional scoring as 99% for each, these figures being derived using internal calculation tools.
- 3.24 For future data quality monitoring, the Fund has procured a tool from the pension administration software supplier. This provides wider analyses of data and, in tandem with the data validation and interrogation functionality provided separately by the Fund’s actuarial services provider. These will be reported to Committee in due course. The tool will be used to develop an improvement plan including progress monitoring. This will serve to enhance future reporting and ensure more consistent measurement of data quality.
- 3.25 Whilst TPR has a framework of data tests and recommend targets for common data, to-date it has only provided an illustrative list for possible data tests for conditional (scheme specific) data. The LGPS Scheme Advisory Board (SAB) in England and Wales is currently consulting with administering authorities to determine the most appropriate definition for a consistent approach across all LGPS Funds. Fund Officers have raised this issue for consideration by the SAB in Scotland.
- 3.26 Pending determination of this definition by the SAB, the software supplier has, in conjunction with an English authority, created its own interpretation of data tests. The Fund will utilise this as the basis for its annual report to The Pensions Regulator in September 2018.

## **4. Measures of success**

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- 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**

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

## **6. Risk, policy, compliance and governance impact**

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- 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**

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

## **8. Sustainability impact**

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

## **9. Consultation and engagement**

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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**

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10.1 None.

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## **11. Appendices**

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