Pensions Audit Sub Committee

2.00pm, Tuesday, 24 September 2019

Pensions Data Quality

Item number	**5.3**
Executive/routine	
Wards	**All**
Council Commitments	

1. Recommendations

The Pensions Audit Sub Committee is requested to:

1.1 note the report and highlight any points it would like to raise at the Pensions Committee on 25 September 2019.

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

Report

Pensions Administration Data Quality

2. Executive Summary

2.1 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.

2.2 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. Focus has been placed on bringing the receipt of monthly contribution (data) returns from employers to an up-to-date position, together with the provision of a static pension record identifier.

3. Background

3.1 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.

3.2 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; and
- report individual scheme employers where their failure has caused a statutory breach.

3.3 In respect of data quality measures identified by The Pensions Regulator (**TPR**), the Unaudited Annual Report 2019 (for Lothian Pension Fund and Scottish Homes Pension Fund) stated "…Historically, the Fund has prepared its assessment of common and conditional data in-house, calculated as an overall percentage of member records passed in each category tested. Due to the complexity of TPR's illustrative list of conditional data requirements, previous results were based on a small number of conditional data categories. The Annual Report and Accounts 2017/18 cited a score of 99.9% for both the common and conditional data. For

2018/19, the Fund has utilised a new data quality service provided by the software supplier. The Fund can now provide data score measurements required by TPR based on more comprehensive analysis and based on the percentage of clean member records without a single data failure. The conditional data now interrogates five data categories; Member Benefits, Member Details, CARE Benefits, HMRC Data and Contracted Out Data. The Fund's scores as at 31 March 2018 were 95.6% for common data and 90.9% for conditional data. As this is the first time using the new software, issues have been identified with the way some historic data has been recorded, rather than data being unavailable. The software supplier has stated that the general quality of the Fund's common data is of a high standard compared with other LGPS funds. The data is being prepared for as at 31 March 2019 and the results will be reported in the audited version of the Annual Report and Accounts." This report provides these summary results separately for Lothian Pension Fund and Scottish Homes Pension Fund.

3.4   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.

3.5   As Committee is aware, reflecting the procurement of an integrated pensions administration software system from a single supplier, Lothian Pension Fund introduced two new employer portals in October 2018. The first portal ("i-Connect") facilitates secure monthly submissions that updates member information without intervention by the Fund, thereby increasing efficiency. The second portal ("Go Anywhere") facilitates secure document sharing between the employer and the Fund and vice versa.

3.6   Following the end of contracting-out of the Second State Pension (S2P) on 5 April 2017, HMRC is committed to 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. The UK Government's deadline for pension schemes to reconcile the GMP values they hold for members with those calculated by HMRC was 31 March 2019. As reported previously, Lothian Pension Fund achieved this target of reconciliation to within the accepted tolerance of £2 per week. This report provides an update on payment of

any sums due by the Fund in respect of GMP, together with identified overpayments.

3.7 In 2018, the Scottish Government advised that "Scottish Ministers have decided that as in 2008/2009 any LGPS pension in payment affected by the exercise should not be reduced going forward. Instead the identified GMP related overpayment should be converted as before into an Increased Pension Entitlement (**IPE**) allowing the pension to continue at its existing level." Consultation on draft Regulations to effect such "…The Local Government Pension Scheme (Scotland) Pensions Amendment (Increased Entitlement) Regulations 2018" closed on 11 October 2018.

4.   Main report

Pension Administration Strategy (PAS) performance 2019/20 to date

4.1 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.

4.2 Overall employer performance for the first quarter of 2019/20 is shown below, with 2018/19 shown for comparison purposes

Employer performance		Quarter 1 2019/20			2018/19		
Case type	Target (working days)	Number received	Number within target	% within target	Number received	Number within target	% within target
Leavers	20	800	369	**46%**	1140	473	**42%**
Retirements	20	348	126	**36%**	299	118	**40%**
Deaths In Service	10	5	4	**80%**	4	3	**75%**

4.3 There is a continuation of poor employer performance in first quarter of this financial year.

4.4 The method for employers providing "new start" data changed in October 2018 with the procurement of a new employer portal. The roll out to employers to upload monthly data to March 2019 was achieved by May 2019. This resulted in a delay of the creation of new start records and therefore statistics on this case type are not measurable for the current financial year.

4.5 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.

Monthly Contribution (Data) Return – Submissions

4.6   Owing to the migration of employers to the new portal, the Fund did not record monthly submission statistics for the returns September 2018 to March 2019. For the first quarter of 2019/20, the number of employers with an active membership is 88. This includes the 4 local authority employers solely in respect of their Councillor memberships, these having been separated from the main employer submission. 83.33% of monthly submissions were received by the due date. The Fund continues to work with employers to assist in progressing timely submissions.

4.7   East Lothian Council migrated to a new payroll system and, as a consequence, has been unable to provide monthly submissions since its March 2019 return was uploaded on 17th April 2019. This affects 3 employers data submissions - East Lothian Council, East Lothian Councillors and Enjoy East Lothian. No financial or new starter data has been recorded for the first quarter for their membership. Cognisant of the expectations of The Pensions Regulator, the Fund is compelled to enter formal communication with East Lothian Council regarding its performance failure and progress to rectification. It is anticipated that charges will be levied by the Fund, in accordance with the PAS. An oral update will be provided to Committee.

4.8   The City of Edinburgh Council changed its pension record identifier in June 2018 to what was expected to be a static reference. Whilst the number of member records with data issues owing to incorrect reference application has reduced, this significant impediment has not yet been fully eradicated. A project team has been established by the Council to data cleanse cases of non-unique pension record identifier.

4.9   Monthly contribution returns for the first quarter were not provided by the respective deadlines, resulting in late recording of financial and new starter data. The Fund continues to provide significant additional assistance, with a Fund administrator working consistently with the Council, including site visits, to keep submissions progressing.

4.10   The monthly contribution file for April 2019 has now been loaded to the pension administration system and, reflecting the efforts of both Council and Fund, it is anticipated that considerable progress should be evidenced in the forthcoming months. This is very important, given the focus accorded to this matter by The Pensions Regulator in its recent detailed review of the Fund's activities, specifically the target of 6 months for demonstrable improvement in data performance by the Council.

4.11   In respect of the failure to submit monthly contribution returns by the due date, as is the case for East Lothian Council, it is expected that the Fund shall invoice for recovery of administrative costs arising, as provided for in the PAS and as noted by The Pensions Regulator. An oral update will be provided to Committee.

Annual Benefit Statement 2019 – data returns from employers

4.12   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 23rd April to date return is received. Deadline was extended this year due to coinciding with Easter break. By the deadline 100% of employers had submitted year-end financial data, of which 12 were returned due to errors, an improvement on last year.

4.13   Accordingly, there was no requirement to levy a cost recovery charge on any employer for late submission of the year-end return.

4.14   52,152 annual benefit statements (100% of member records) were produced and issued by the statutory deadline of 31 August 2019.

Actuarial Valuation as at 31 March 2020

4.15   Data cleansing, in preparation for the Actuarial Valuation 2020, will commence in the latter half of 2019/20.

GMP Minimum Pension (GMP) reconciliation

4.16   As reported previously, the Fund reconciled GMP values held for its members with those calculated by HMRC, to within the accepted tolerance of £2 per week, by the statutory deadline of 31 March 2019. In total,120 members were identified who had been underpaid GMP. This resulted in arrears of £37,597.90, which was paid in June 2019. Requisite increases to ongoing annual pensions totalled £4,028.

4.17   In respect of overpayments, for which the Scottish Government has already advised "…..any LGPS pension in payment affected by the exercise should not be reduced going forward. Instead the identified GMP related overpayment should be converted as before into an Increased Pension Entitlement (**IPE**) allowing the pension to continue at its existing level", Scottish LGPS Regulations to implement this direction have been subject to lengthy delay but are now expected to be laid in October 2019. The Fund has calculated a total annual pension overpayment of £73,624.32, across 572 members' records, that is an average of £128.71 per member. Once the Regulations have been passed, the pensions administration software supplier has confirmed that its system will be updated to enable suitable identification of the new payroll element.

Other data quality initiatives, including mortality screening and tracing

4.18   To prevent fraud and overpayments of pensions, the Fund takes part in the National Fraud Initiative, mortality validation with the National Records of Scotland and utilises the "Tell Us Once" death notification service. Additionally, the National LGPS (Procurement) Framework for Member Data Services was recently established, in which LPF participated as a founder. This framework offers an extensive range of services including address tracing and correction and mortality screening. Details of these initiatives are provided separately in the "Fraud Prevention" report to this Committee.

4.19 The Fund annually participates in "Club Vita", a specialist company proving longevity monitoring and experience analyses, for various data quality assurance checks. Data extract for 2019 analysis is due by 30 September. As at the last annual report in October 2018, data quality compared favourably with other funds. Confidentiality constraints do not permit more detailed disclosure.

Management information and data quality monitoring

4.20 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 the specific scheme type and design.

4.21 The Fund procured an TPR data analysis service from the pension administration software supplier.

4.22 In order to maximise the cost efficiency of this annual outsourced assessment, the member data extract was run on 13 August 2019, with effective date as at 31 March 2019. This enables the data cleansing of member records undertaken by the Funds prior to issuing the Annual Benefit Statements to be reflected in the assessment. This timeframe also aligns to the submission of the annual scheme return to TPR by 30 November 2019.

	2018	2019	2019
TPR Data measure	**Combined Funds**	**Scottish Homes Pension Fund**	**Lothian Pension Fund**
Common	95.6%	96.5%	98.3%
Scheme-specific	90.9%	96.7%	95.4%

4.23 The supplier (analyst) has noted that "the TPR specified measure is the percentage of member records that pass all tests that have been agreed for inclusion in the TPR core tests. The full analysis and reports including comparison with last year will follow and we anticipate that they will be ready in late September."

4.24 In July 2019, the LGPS Scheme Advisory Board (SAB) in England and Wales issued a draft "conditional data" report prepared in agreement with representatives from TPR, SAB, software suppliers, fund actuaries and pension practitioners. The SAB in Scotland has not yet considered this matter.

5. Next Steps

5.1 The Fund has established a formal Data Improvement Plan, in accordance with best practice and expectations of The Pensions Regulator. A summary is shown at Appendix 1. This includes:

5.1.1   working with the City of Edinburgh Council to cleanse the unique pension reference;

5.1.2   continuing to liaise with those remaining employers which are using the temporary i-Connect conversion macro file to facilitate their move to full i-Connect payroll extract by the end of the financial year;

5.1.3   preparing for the Actuarial Valuation 2020 by regular data review, utilising the validation data quality reporting tool, as sourced from the Fund's actuarial services provider;

5.1.4   continue to liaise with the Fund's employers to expedite accurate data transmission;

5.1.5   ongoing review and revision of the Data Improvement Plan.

6.   Financial impact

6.1   There are no direct financial implication arising from this report.

6.2   Data quality is fundamental to the effective and efficient administration by the Fund. Costs are met by the Fund's administration budgets (staff and third-party payments).

7.   Stakeholder/Community Impact

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

7.2   There are no adverse health and safety, governance, compliance or regulatory implications as a result of this report. The forward planning of the Committees' agendas should facilitate improved risk management and governance for the pension funds.

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

8.   Background reading/external references

8.1   None.

9.   Appendices

9.1   Appendix 1 - Data Improvement Plan (Summary Extract)

Objective	Action	Implementation Date	Quarter 1	Quarter 2
TPR - Common and Scheme Specific Data Scores Maintain complete and accurate records to ensure the timeously payment of correct pension benefits.	Improvement in the Fund's TPR Data scores for Common and Scheme Specific Data through analysis of records, creation and implementation of rectification plan	brought forward from 2018/19	rectification work allocated to staff	August - extract of data by Heywood for 2019 Analyses
Actuarial Valuation 2020 To improve the data supplied to the Actuary for the next Triennial Valuation.	Monthly the fund will utilise the Hymans data portal and make corrections where required.	Quarter 2		
Fraud Prevention To prevent and detect fraudulent claims	The Fund will continue to participate in * biennial National Fraud Initiative * Western Union annual overseas existence check * annual Club Vita data submission * National Records of Scotland quarterly mortality screening	ongoing	June - Western Union existence check for overseas bank accounts	August - data provided to National Records of Scotland
Tracing "Lost" Members Identify members with "gone-away" status and undertake tracing exercise to locate new address	Procure a contract with an external body to trace our membership	brought forward from 2018/19	April - review of potential suppliers and corresponded with procurement on Fund preference June - Fund completion of DPIA (Data Protection Impact Assessment)	July - DPIA report received from Information Governance Aug - Legal input agreed for DPIA and recommendations incorporated. Order form signed by supplier and data submitted.

Employer Engagement Engage with employers to improve the timeliness and quality of member data	The Fund will continue to *provide quarterly Pension Administration Strategy statistics to each employer *arrange and attend regular meetings with employers to discuss issues and improvements *deliver training to employers who have been identified as requiring improvement *advertise and deliver training to employers upon request *host annual employer seminar	ongoing	April - distribution of Quarter 4 18/19 PAS Stats May - training with City of Edinburgh Ongoing - monthly meetings with City of Edinburgh	July - distribution of Quarter 1 PAS stats Ongoing - monthly meetings with City of Edinburgh Aug/Sep - Annual Employer Meetings
Data Issues Monitor data issues and put in place any improvements to prevent/control future instances	Weekly data meeting to discuss known issues and their progress	ongoing	ongoing	ongoing
i-Connect (employer portal) Engage with employers to ensure timeliness and accuracy of monthly data submissions	*provide ongoing employer support in the provision of monthly submissions *communicate and deliver assistance to employers migrating to full i:Connect payroll extract by end 2019/20	ongoing	May - Visit to WLC to handover uploading of files to i:Connect May-July – several visit with CEC to assist with cleanse of their data to progress with monthly uploads May/June - assistance and testing for HWU full i:Connect extract	