

ITEM No ...6.....

REPORT TO: PENSION SUB-COMMITTEE OF THE POLICY & RESOURCES COMMITTEE & PENSION BOARD – 7 DECEMBER 2020

REPORT ON: PENSION ADMINISTRATION PERFORMANCE – QUARTERLY UPDATE TO 30th SEPTEMBER

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 328-2020

1. PURPOSE OF REPORT

This report provides information on the recent quarter’s operational performance in relation to Pension Administration.

2. RECOMMENDATIONS

The Sub-Committee is asked to note the contents of the report,

3. FINANCIAL IMPLICATIONS

There are no direct financial implications.

4. BACKGROUND

Following a review of processes and reporting which commenced in December 2019, enhanced reporting functionality has been introduced to improve the quality of information on administration performance and compliance. Reporting focusses on statutory performance and will be subject to ongoing development.

5. SERVICE SUMMARY**5.1. Summary of Statutory Performance Requirements**

The following table summarises the performance of the fund administration against statutory requirements:

Category	B'fwd	Received		Completed		Statute Days	Average Days		C'fwd	Cases beyond statute 30/9/20
		Current	Prior	Current	Prior		Current	Prior		
New Member processing	43	470	307	487	264	60	30	30	26	0
Retiral Estimates	107	273	151	129	267	60	82	79	251	5
Issue of Pension Options	195	313	188	223	36	60	83	40	285	2
Pensions Brought into Payment	48	243	172	191	244	60	64	76	100	7
Inbound benefit transfers	97	25	44	27	40	60	174	73	95	33
Outbound benefit transfers	146	73	155	71	73	90	106	103	148	21
Deferred member processing	266	189	232	203	191	60	112	79	252	62

Process of death benefits	56	124	198	134	173	60	20	20	46	0
Payment of death grant	35	23	39	30	27	60	104	94	28	0
Dependant member processing	51	38	76	61	59	60	48	57	28	0
Divorce	17	15	22	12	18	90	63	51	20	0
Total Cases	1,061	1,786	1,584	1,568	1,392				1,279	130

Please note that the above statistics still include some legacy system tasking which includes employer and member query timescales, and can thus be misleading. These legacy tasks will reduce naturally on completion, but in order to provide reassurance and further clarity, the case volumes at end of the period that are out-with statutory timescales have been included. This data demonstrates that whilst there is a small number of cases out-with statutory timescales, this is not material and does not present cause for concern, nor warrant report to the Pensions Regulator (TPR).

The following provides further detail on statutory task data:

Covid Prioritised Tasks:

- Issue of Pension Options & Pensions Brought into Payment
Over 54% more cases were received during the quarter, and in line with TPR priorities, the team processed 48% more of these cases in this quarter.
- Processing of Death Benefits, Payments of Death Grants, and Dependant Pensions
The volumes of death related payments reduced by 41% in the quarter, although the volume of cases was at a similar level as the team completed cases received at the end of the previous period.

Other Statutory Tasks:

- New Member Processing: Due to the annual benefits exercise being undertaken during the quarter, there was an increase of over 50% of cases on previous period as employers provided documentation not previously submitted
- Estimates: Volumes of estimate requests increased massively by over 80% over the quarter, and although not given the same priority as Covid tasks, the team are managing to ensure that process volumes maintain within statutory requirements.
- Deferred Member Processing: During the quarter additional resource priority was allocated to the annual benefit statement exercise to address the small outstanding caseload extending beyond statutory requirements. As case volumes received during the period fell by almost 20%, this will enable the catch-up exercise to be complete by the end of December.
- Benefit Transfers: Case volumes received during the quarter reduced by around 50%. These tasks were also impacted by the reallocation of resources to the Annual Benefit Statement exercise. As with deferred member processing, additional resource has been allocated during the quarter to end of December. Please note that additional measures remain in place to ensure that members requesting transfers out of the scheme are made aware of the risks before proceeding.
- Divorces: Statutory timescales were met.

5.2. Change to TPR reporting requirements

Whilst the delivery focus remains in line with pre-advised TPR priorities in relation to payment of benefits, on 24th September 2020 the Pensions Regulator published a statement advising that reporting requirements that were paused in response to COVID-19 resumed from 1 July. As a result of the COVID-19, they had been adopting a more flexible approach to what was expected in relation to reporting in a number of areas, and when enforcement action would be appropriate.

The statement detailed that in deciding whether to take enforcement action, assessment of breaches of administrative and compliance requirements will be carried out on a case-by-case basis and with pragmatic responses where it can be demonstrated that there were COVID-19 related reasons for any breaches. The statement also detailed that The Pensions Ombudsman has confirmed it will consider TPR latest guidance on COVID-19 issues if it receives complaints about delays caused by COVID-19 circumstances

5.3. Other Pension Operations

The following table summarises the other operations undertaken in addition to statutory requirements:

<u>Other Pension Activities</u>	Completed in Quarter	Completed in Previous Quarter
Amendment to Account	512	272
Certificates	139	38
Other Admin Tasks	311	580
Other pensions processing	2,427	1,205

5.4. Employer Contributions

During the quarter, there was only one instance of late payment of contributions. This was due to employer resource issues, and contributions were received by 26th of the month.

5.5. Annual Benefit Statements (ABS)

The following summarises the volumes of statements issued:

Annual Benefit Statements Issued	Volumes
External provider	27,006
In-house	1,088

The exercise of issuing the annual benefits statements followed on directly from member records being updated at year end following receipt of employer year end returns. Whilst returns largely complied with requirement, there were a number of cases were rejected by the system on upload. The exercise was largely undertaken separate from the processing operations, rejections were referred to the operational teams for further analysis, query and amendment. Actions taken by the teams involved manual amendment of the member record, classification of queries for issue to employers, and on receipt of replies, for the required member record to be amended.

2,051 tasks were created as a result of queries and amendments required, and over the period to 30th September, 1,843 were closed/terminated. The 208 tasks that remain outstanding largely relate large to one employer. Dialogue continues with all employers with outstanding ABS information, and the aim is to complete the exercise in entirety by end of December.

The remaining outstanding volumes are not a level of materiality, and senior management are kept informed of progress.

5.6 Triennial Valuation

The Triennial valuation of the fund was conducted as at 31st March 2020. Prior to data submission, a new data cleanse product was provided by the Fund's Actuary Barnett Waddingham. This identified cases requiring action across all member categories that would not have been picked up in the ABS exercise. The tool was run against fund data 3 times, and staff were allocated to undertake the resultant actions on record prior to final submission of data on the 3rd November. Data quality is a critical requirement, and as this facility is now readily available, this exercise will be scheduled in to be run annually.

5.7 Compliance

During the quarter there was one recorded instance of GDPR breach.

6. OTHER ACTIVITIES

6.1. Tell Us Once

All pre-requisite requirements and plans to install this service for use by Tayside Pension Fund were undertaken in the quarter. The Fund are now awaiting receipt of required security devices, and once registered, this will enable the staff to access national data in relation to key life events reported. It is anticipated that this service will be available to the Fund in December.

6.2. Queries & Complaints

- Approximately 3,684 emails were received in the quarter to 30th September 2020. This is a 18% increase on general volumes received from the previous quarter and equates to approximately 55 emails per day. This additional volume of queries was expected due to the Annual Benefit Statement exercise, and these queries generated over 100 additional processing tasks.
- 2 complaints were received during the quarter. Both underwent full investigation, but were not upheld.

6.3. Employers Communications

At 30 September, no applications for alternative contribution payments plans have been made. However, as Covid-19 has resulted in some employers having to make redundancies the Fund are arranging suitable payment plans to address strain costs. Furthermore, there have been a small number of enquiries in relation to exit costs. Following receipt of full triennial valuation results and detailed employer cessation liabilities at 31st March 2020, the Fund officers will be contacting those employers to discuss their options.

7. REGULATIONS

Details of regulatory matters are contained in Appendix 1.

8. POLICY IMPLICATIONS

This Report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management.

There are no major issues.

9. CONSULTATIONS

The Chief Executive and Head of Democratic and Legal Services have been consulted in the preparation of this report.

10. BACKGROUND PAPERS

None

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EXECUTIVE DIRECTOR OF CORPORATE SERVICES

Regulatory Communications

On 27th July 2020 the Scottish Public Pensions Agency published Circular 2020/04. The purpose of this circular is to advise of a recent employment tribunal case [Mrs Goodwin v Department for Education] which concluded that a female member in an opposite sex marriage is treated less favourably than a female in a same sex marriage or civil partnership, and that treatment amounts to direct discrimination on grounds of sexual orientation.

The Scottish Ministers have acknowledged that changes will be required to the Local Government Pension Scheme. The SPPA circular can be found at https://pensions.gov.scot/sites/default/files/2020-07/LGPS_Circular_2020_04_%20Goodwin.pdf

On 30th July 2020 a further circular was published (2020/05) to inform scheme members and employers of the SPPA consultation on proposals to address the age discrimination in scheme reforms in 2015 scheme (McCloud and Sargeant cases).

Under the current regulations, when a protected member leaves the scheme, the underpin calculation does not consider the impact of early or late retirement factors. The SPPA proposes that the revised underpin should be applied after the application of any early/late retirement factors.

As the proposed changes are to be retrospective to 1 April 2015, affected members already in receipt of their pensions will need to these to be re-calculated and any resulting survivors' benefits will also need to be re-assessed. The SPPA have stated that it is their view that administrators should review these cases as a priority and ensure that any retrospective increase in a member's pension arising from the underpin, is considered for relevant survivor benefits.

The SPPA circular can be found at https://pensions.gov.scot/sites/default/files/2020-07/LGPS_Circular_2020_05_McCloud_0.pdf

In respect of the cost control mechanism the circular advised that the Chief Secretary to the Treasury has provided an update on the cost control mechanism in public service schemes which had been paused whilst the financial implications of the Court of Appeal judgment (McCloud and Sargeant cases) were assessed.

The employer cost cap, measures the costs of benefits accruing in a valuation period. Where costs are deemed to breach a 2% window either side of the target cost of the scheme, steps should be taken to address that breach. The cost cap element of scheme valuations will now resume. This has particular implications for the Scottish LGPS with funds currently undertaking triennial valuations, and SPPA have confirmed that they will engage with funds to explore and support the management of arising issues.

The full Ministerial Statement can be found at <https://questions-statements.parliament.uk/written-statements/detail/2019-07-15/HLWS1687>

Actuarial Guidance

On 15th September The Government Actuary's Department published revised guidance in respect of Interfund Transfers, that is transfers between Scottish Local Authority Pension Schemes. The revised guidance advises that a change in methodology came into force from 25 September 2020.

The Guidance can be found at https://pensions.gov.scot/sites/default/files/2020-09/LGPS_Scotland_Interfund_Transfers.pdf

McCloud & Sargeant – Update

The remedy to the age discrimination identified by the cases above is have an underpin from 01/04/2015 to 31/03/2022 (or if earlier, the date of retirement, leaving or death) for all members (who were in service on 31 March 2012). Members will automatically be given the greater of the pension accrued in the 2015 (CARE) scheme or that which would have been calculated under the 2009 scheme (final salary).

In applying such the underpin a variety of calculations will be affected (and will require re-calculation and amended payments made), the affected calculations include: -

- Deferred Benefits
- Retirements (both from active and deferred status)
- Death Benefits
- Trivial Commutations
- Transfer Outwards
- Transfer Inwards
- Divorce calculation (including Pension Sharing Orders)
- Annual Allowance (including Scheme Pays Options)
- Lifetime Allowance (including Scheme Pays Options)

Prior to any of the above being re-calculated the data required to calculate the underpin will need to be requested from employers (and previous pension schemes) and input into each individual member record. It will be necessary to request from all scheme employers the hours worked, the amount of any p/t additional hours worked and of any period of service breaks (i.e. unpaid maternity or authorised unpaid leave of absences) since 1st April 2015 as there has been no requirement to hold this information for each member as it does not affect the amount of CARE pension provided.

This is an extensive exercise not only for pension fund administrators but also on the part of each scheme employer due to the time frame and volume of data which will be required. It should also be considered that some employers may not hold this information and a such an alternative would be to be applied in order to update member records (i.e. the calculation of hours worked in relation to hourly rates and amounts paid). Software developers will also need to make considerable amendments to systems to allow the upload of the additional membership data but also in terms of the revised calculations and documents.

Extensive member communications will also be required to advise on the impact the new underpin calculation has had on their benefits. Such communications will include those who have not only retired or deferred their benefits, but with those in receipt of survivor benefits and also those who have transferred out their benefits to another pension provider. It will be essential that these communications clearly show the impact of the underpin and the effect its recalculation has had on, for example the amount of benefits in payment and the amount of arrears due to be paid as well as the amended future payment details. In terms of the active scheme membership there will be a requirement to advise members of their potential underpin on annual benefit statements and this is problematic not only in terms of ensuring all data is held to calculate the value but also on ensuring that is communicated clearly and concisely.

Certain amended calculations will also require clarification and guidance from HMRC, for example where a member has elected for trivial commutation (payment of a commuted lump sum in lieu of a continuing small pension) a check will have been made that the crystallised value of the benefits fell within HMRC limits, but once the revised underpin is applied there is a possibility that the value may be greater than the HMRC limit, and a such this may have tax implications for the member.

The resource required to address this issue will be significant as can be seen when viewing a sample of the cases actioned in the period 1st April 2015 to 30th September 2020.

Action	Volume of cases actioned
From active to pensioner	3,035
From active to deferred	4,041
From deferred to pensioner	1,507
From active to deceased	113
From deferred to deceased	108
From pensioner to deceased	2,020
From active to no further liability (refunds, transfers out, trivial commutations)	2,941
From deferred to no further liability (transfers out, trivial commutations)	338