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| REPORT OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES | | |
| Pension Fund Administration Annual Report 2015/16 | Classification Public | Enclosures: None |
| | Ward(s) affected ALL | AGENDA ITEM NO. |
| Pension Board 2nd December 2016 | | |

1. INTRODUCTION

- 1.1 This report outlines the work undertaken by the London Borough of Hackney and the performance of the pension fund administrators, in regard to the administration of the LGPS Hackney Pension Scheme for the financial year 2015/16. The contract for pension administration, and pension payroll, is managed externally by the Fund's pension administrators, Equiniti Pensions Solutions, with the contract being overseen by the Financial Services Section based at London Borough of Hackney. The contract with Equiniti commenced on 1 April 2009 for an initial period of 5 years, and approval was given on 1 April 2014 to extend for a further 3 years until 31 March 2017

2. RECOMMENDATIONS

- 2.1 The Pension Board is recommended to note the report.

3. RELATED DECISIONS

- 3.1 Pensions Sub-Committee (17 January 2013) – Pensions Administration Contract, approval of 3 year extension
- 3.2 Pensions Sub-Committee (9 December 2008) – Procurement of Pension Scheme Administrator and Pension Payroll Provider

4. COMMENTS OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES

- 4.1 The costs of administration as a whole for the Pension Fund are relatively small compared to the overall value for the Fund. The cost in 2015/16 was £570k, compared to £638k in 2014/15 although it should be noted the cost in 2014/15 included additional costs for the implementation of CARE Scheme 2014.
- 4.2 It is evident that having efficient administration is crucial to the effective management of the Pension Fund. The cost is made up of the cost of the third party administrators, including the administration of the pension payroll, and the internal costs of administering the Fund. This year the average cost of administering the Fund per member was £25.37, based on the current cost and membership at 31 March 2016, compared to £29.63 at 31 March 2015.
- 4.2 Good administration is key to ensuring that the Fund is able to meet its pension commitments in a timely manner and will avoid additional charges to the Fund from late payments and fines. The administration of the Pension Fund is closely monitored

by officers of the Council to ensure efficient service delivery.

5. COMMENTS OF THE DIRECTOR, LEGAL

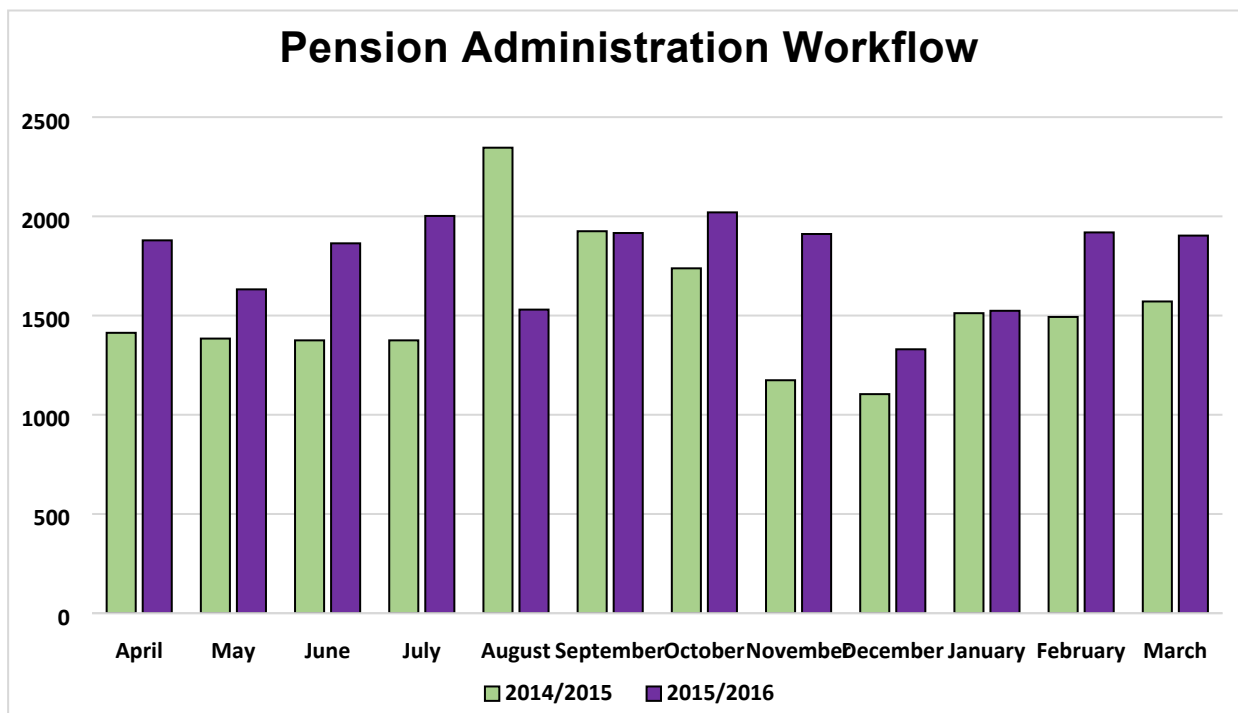
- 5.1 The Local Government Pension Scheme Regulations 2013 set out in detail the administration of the Pension Scheme and how the Scheme rules are to be applied. If these were to be applied incorrectly then this would pose a risk to the Pension Fund.
- 5.2 The Pensions Board have responsibilities to ensure that the Fund is managed in accordance with the regulations. Receiving regular updates on the performance of the administration function will assist the Board in ensuring that it fulfils its regulatory obligations.
- 5.3 There are no immediate legal implications arising from this report.

6. SUMMARY

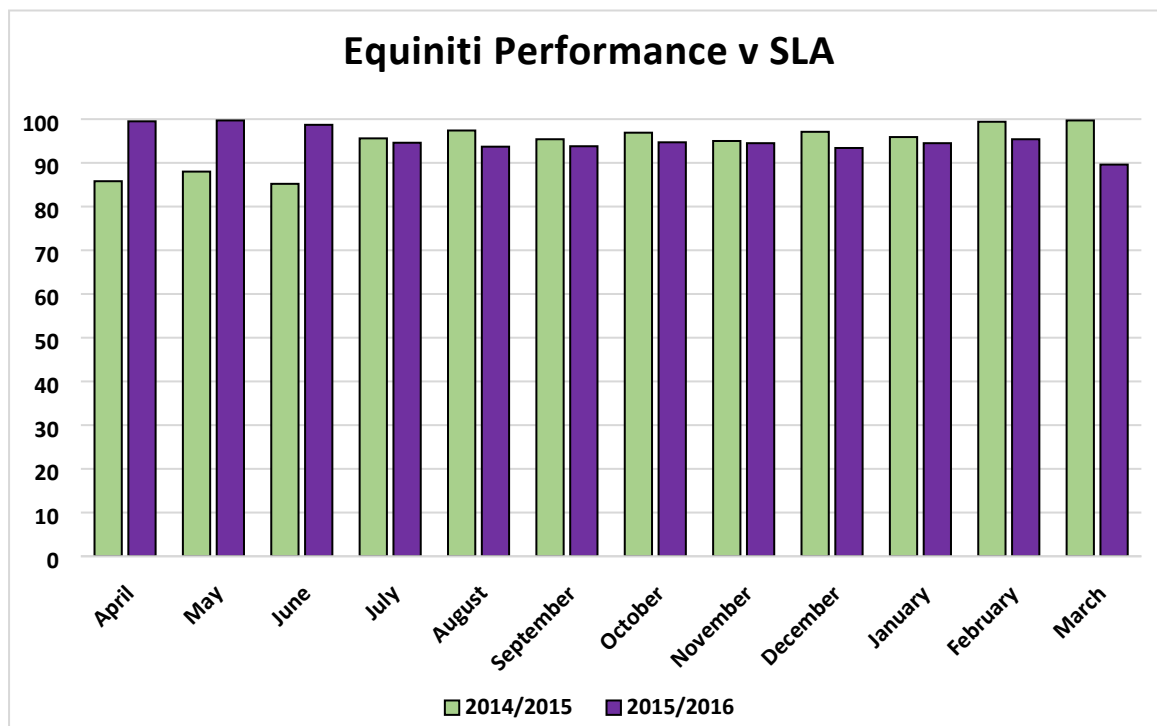
- 6.1 The pension administrators, Equiniti Pensions Solutions, have a dedicated team of qualified pension professionals who manage the day to day administration of the scheme on behalf of the London Borough of Hackney. The contract is monitored by the Financial Services Section of the London Borough of Hackney on a monthly basis and performance is measured against Service Level Agreements (SLA). Over the year the pension administrators handled 20,234 cases, an increase of 1,824 on the previous year.
- 6.2 Overall performance against the SLA is slightly improved for 2015/16 at 95.1%, compared to 94.2% for 2014/15, which considering the increased workflow and the difficulties faced by the administrators, can be attributed to their hard work and dedication in ensuring that member records are up to date and correct. Equiniti have also successfully issued 5,096 annual benefit statements to active members, and 7,358 benefit statements to deferred members, including Councillors.

7. ADMINISTRATION PERFORMANCE

- 7.1 The performance of the pension fund administrators, Equiniti, is monitored by the Financial Services Section at Hackney Council. Meetings are held monthly to discuss performance against service level agreements, workflows, data cleanse issues and planning of future work projects. Meetings also include discussion of specific administration cases and recommendations for enhancements to the service provision both to Hackney and to members of the scheme.
- 7.2 Over the last financial year the total case load for the administrators has increased significantly from just under 18,500 cases in 2014/15 to 20,234 for 2015/16. The average monthly case load has increased from 1,534 in the previous year, to 1,786 in 2015/16. This increase has been primarily driven by the increased complexity of the scheme, starters and leavers having to be processed manually and the need for some manual calculations. The flow of work over 2015/16 in comparison to 2014/15 is shown in the chart below:-



- 7.3 The increased workload is still being driven by the need for starters and leavers to be processed manually, as the monthly payroll interface could not be relied upon to input accurate member data. Also the increased processing time for cases continues to impact on the workflow, and is due to the complexity of the scheme and the need for some manual calculations.
- 7.4 The impact of the introduction of the CARE scheme on 1 April 2014, is still having a major effect on the overall workflow, due to the lack in quality data and the timeliness of data received from employers and their payroll providers. This has continued to result in extra work both for the third party administrators, Equiniti, and the internal Financial Services team. In addition, considerable problems still remain with the Council's payroll system as a year-end file that was fit for purpose was not provided, the data from which is used to produce members annual benefit statements.
- 7.5 As the year-end file was not provided, the Fund was not able to comply with its regulatory duty of providing annual benefit statements to its members by the end of August 2015. However, all benefit statements were issued in late September with the addition of a 'health warning' requesting members check their statement for accuracy, with the exception of circa 1,000 active member statements which were issued in January 2016. This was attributed to the lack of accurate pensionable pay data from employers. Hackney were not alone in this as many authorities across the country experienced the same issues, to the extent that the Pensions Regulator (tPR) were forced to issue a statement informing Funds of an extension to the deadline for benefit statements. Despite this, the Fund breached the regulations, and as advised by tPR, reported itself to tPR, setting out what had happened and the steps that will be taken in future, to correct this. No further action was taken by tPR.
- 7.6 Performance under the pension administration contract when compared to the service level agreement (SLA), was 95.1% for 2015/16 as a whole, which is a very slight increase on 94.2% in 2014/15. This in its self is an achievement considering the difficulties the administrators have had to overcome again this year. The performance v SLA over 2015/16 in comparison to 2014/15 is shown in the chart below:-



7.7 In addition to dealing with the day to day administration cases, Equiniti have also undertaken a number of tasks on behalf of the Fund, some of which are listed below:

- The year end pension payroll process has been completed for both the monthly and annual payrolls including the application of the pension increase (PI), reconciliation of the payrolls, production of P60s and reporting to HMRC
- System year end update of pension increase; Lifetime Allowance and Annual Allowance earnings and contribution histories was completed
- FRS17 data submitted to the Actuary, valuation extract submitted to GAD, data submission for Club Vita longevity studies and cessation valuation calculations for ceased employers
- Overpayment of pensions - identified overpayments to a value of £49,813. These were as a result of late death notifications. To date £20,550 has been recovered.

7.8 Employers and schools administration performance has been monitored over the year, and assistance and additional training has been provided to help support them with administering the scheme to ensure more accurate data is provided to Equiniti. Additional administration charges have been issued to a small number of employers where persistent failure to deliver accurate and timely information, despite support, has arisen. There were 8 instances of contributions being received late from various employers during the year, in most instances this was by one day only and employers have been reminded of the regulatory requirements to meet payments due to the Fund by the 19th of the month.

8. OTHER WORK UNDERTAKEN IN 2015/16

8.1 One year after the introduction of the CARE Scheme in 2014 and its additional complexities, it was reasonable and appropriate to carry out an audit of the administration arrangements at Equiniti and also to audit the data quality submissions from employers to the Fund. During the autumn of 2015 the Funds benefit

consultants undertook a comprehensive audit and the findings were submitted to Committee in January 2016.

- 8.2 Whilst it was clear the administrators demonstrated a willingness to deliver high quality administration to members of the scheme and to the Fund, they were often hampered by quality and timeliness issues of data submissions from some of the employers. It was noted from the audit, that some employers are still clearly struggling with implementing the new reporting requirements with their payroll providers. It is an on-going objective for the in-house Pensions team to provide assistance to those employers who are still struggling to meet the new requirements.
- 8.3 In October 2015, the Chief Executive launched a voluntary redundancy scheme as part of a Council wide savings programme, open to all employees of both the Council and Hackney Homes Ltd. The in-house Pensions team held 21 briefing sessions, attended by 421 members of staff and processed circa 600 application forms, providing redundancy, severance and pension estimates for individuals and the Corporate Panels. Of the 600 applications, circa 300 individuals were issued with redundancy offer letters. Following their acceptance of the offer, and completing their statutory notice period, 179 members of staff left the organisation by 31 March 2016. Also under the scheme, there are a further 67 members of staff set to leave the organisation from April 2016 to the end of March 2017.
- 8.4 The Fund's annual Employers' Forum was held on 1 February 2016, and was well attended with most employers able to send a representative. The Forum's agenda was varied, covering the triennial valuation, the pension administration audit, employers' roles and responsibilities, the Pension Board, a Fund overview and an update on the economy.
- 8.5 In the last year, the in-house Pensions team based at the Council, have presented at a number of pre-retirement seminars for the Council and Hackney Homes Limited, providing information on the scheme benefits and processes at retirement. The Pensions team also present at weekly induction sessions for the Council ensuring that all new employees are provided with information on the benefits of the Pension Scheme. Feedback from these sessions continues to be extremely positive with attendees ranking the sessions either good or very good.

9. THE PENSIONS REGULATOR

- 9.1 Changes introduced by the Public Service Pensions Act 2013, have meant that from the 1 April 2015, the Pensions Regulator assumed responsibility for setting standards of governance and administration in public service pension schemes, together with increased regulatory oversight.
- 9.2 As part of the Pension Regulator's new governance and administration framework, a new Public Service Code of Practice was introduced to provide practical guidance and standards of conduct and practice, to help maintain and improve the governance and administration of pension schemes. The Code is directed at Scheme Managers (Funds) and the local Pension Boards. The role of each local Pension Board is to help ensure their scheme complies with governance and administration requirements as defined by the Code.
- 9.3 In the summer of 2015, the Pensions Regulator conducted a survey of all public sector scheme to assess how they are meeting the governance and administration legal requirements and the standards to which they are being run. Participation in the survey was voluntary, with 48% of Funds responding (the Hackney Fund

included), equating to 85% of public scheme members. Key observations at the time of the survey were:-

- Pension Board set-up – 92% of schemes had established Boards
- Internal Controls – 76% of Funds have procedures to manage risk and 82% have a risk register
- Record Keeping – 55% of schemes have measured themselves against the record-keeping requirements and only 27% have undertaken a data cleanse exercise.
- Breaches of the Law – only 55% have procedures for identifying and assessing breaches
- Self-assessment against the Law & Code of Practice – only 44% of schemes have done this review.

With reference to all of the above, the Hackney Fund was able to demonstrate compliance in each area.

9.4 However, as a result of the survey, tPR has indicated that during 2016/17 its focus will be on the following key areas; internal controls, record keeping and the provision and high quality communications to members. The increased scrutiny in these areas has no doubt resulted from the problems many schemes faced in the delivery of the 2015 benefit statements within the regulatory deadline.

9.5 The Pensions Regulator will be assessing standards of schemes on an annual basis and have closer scrutiny of the accuracy of the data held by pension schemes. The emphasis for the Fund will therefore remain on building relationships with employers and ensuring that the data supplied in respect of members is accurate.

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