

REPORT OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES		
<b>Pension Fund Administration Annual Report 2017/18</b>  <b>Pensions Board 29<sup>th</sup> November 2018</b>	<b>Classification Public</b>	<b>Enclosures: None</b>  <b>AGENDA ITEM NO.</b>
	<b>Ward(s) affected  ALL</b>	

## **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 2017/18. The contract for pension administration, and pension payroll, is managed externally by the Fund's pension administrators, Equiniti, with the contract being overseen by the internal Pensions Administration Team at the London Borough of Hackney.

## **2. RECOMMENDATIONS**

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

## **3. RELATED DECISIONS**

- Pensions Committee - Special (25 March 2017) - Procurement of Third Party Pension Administration Services – Approve the award of contract
- Pensions Committee (24 January 2017) - Procurement of Third Party Pension Administration Services - Update (Exempt)
- Pensions Committee (6 December 2016) - Procurement of Third Party Pension Administration Services (Exempt)
- Pensions Sub-Committee (17 January 2013) – Pensions Administration Contract, approval of 3 year extension
- 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 2017/18 was £827k, compared to £539k in 2016/17. This increase was the result of significant increases to the cost of the Fund's administration contract in year due to backdated increased member numbers and the additional cost of carrying out a GMP reconciliation exercise. The implementation of the new Third Party Administration contract during 2018/19 should see this overall cost reduce.
- 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 £36.07 based on the current cost and membership at 31 March 2018,

compared to £23.14 at 31 March 2017. As set out above, this level of costs per head is expected to reduce again in the current financial year with the implementation of the new contract and as there should be no further backdated fees imposed.

- 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 OF LEGAL AND GOVERNANCE**

- 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 has a duty to assist the administering authority in complying with the LGPS Regulations 2013 and other relevant legislation, and to ensure the effective and efficient governance and administration of the scheme. Receiving regular updates on the performance of the administration function helps the Board to ensure that the scheme is well administered and compliant with relevant legislation. Consideration of this report is therefore within the remit of the Pensions Board.
- 5.3 There are no immediate legal implications arising from this report.

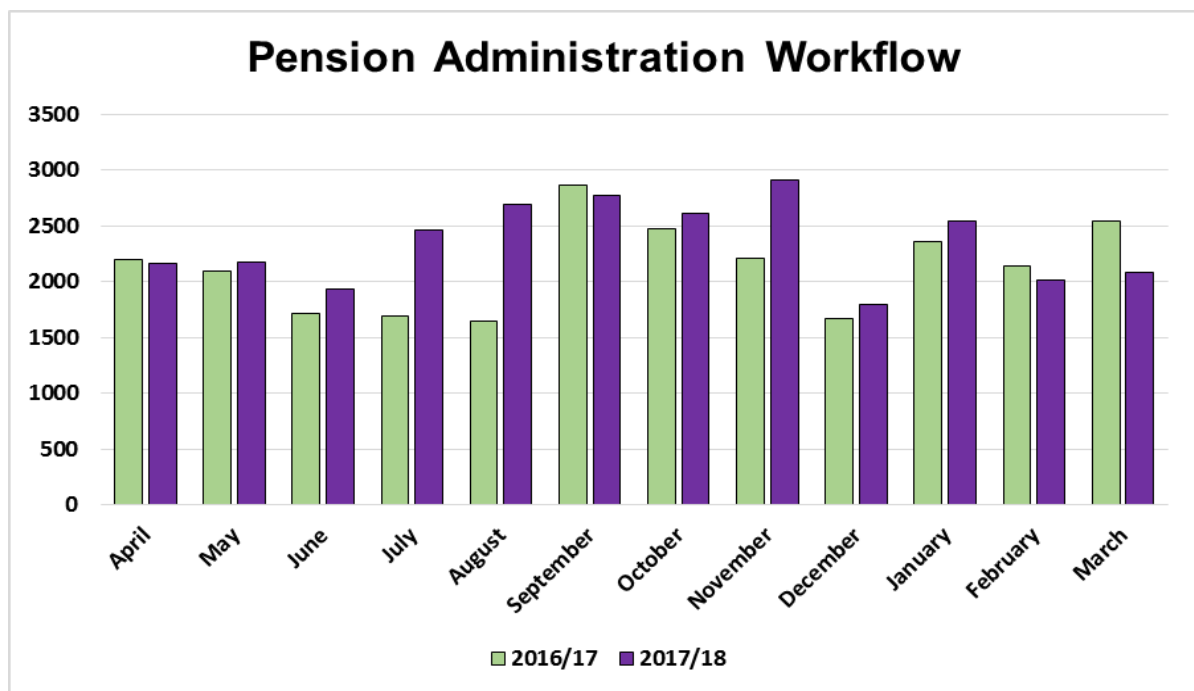
## **6. SUMMARY**

- 6.1 The pension administrators, Equiniti, 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 internal Pensions Administration Team at 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 28,142 cases, an increase of 2,453 on the previous year of 25,598.
- 6.2 Overall performance against the SLA has shown a slight decrease for 2017/18 at 94.4%, compared to 97.1% for 2016/17, which can be attributed to the increased workflow and the continued difficulties faced by the administrators due to the Council's failure to provide quality reporting since changing payroll provider in July of 2017. Despite these ongoing difficulties, Equiniti have successfully issued 5,762 annual benefit statements to active members, and 7,288 benefit statements to deferred members, including Councillors.

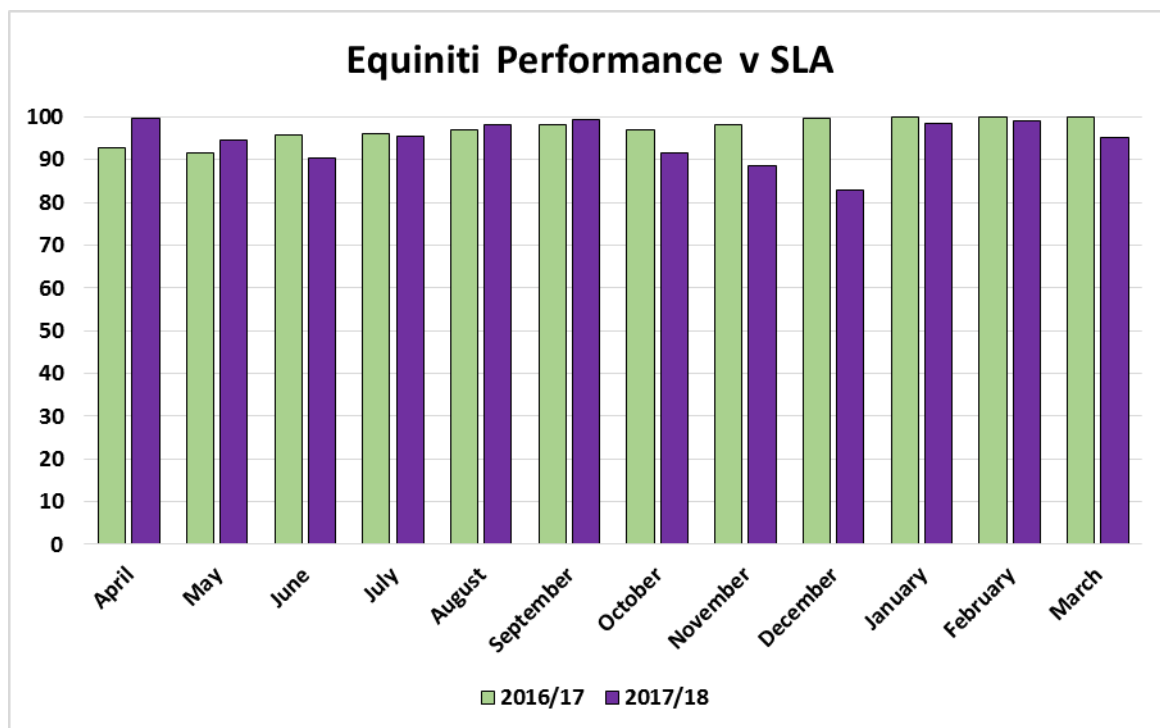
## **7. ADMINISTRATION PERFORMANCE**

- 7.1 The performance of the pension fund administrators, Equiniti, is monitored by the internal Pensions Administration Team 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 year the total cases received by the administrators has increased significantly from 25,598 cases in 2016/17 to 28,142 in 2017/18, an increase of 9.5% on the previous year. The average number of cases received monthly has increased from 2,133 in the previous year, to 2,346 in 2017/18. The number of cases for 2017/18 in comparison to 2016/17 is shown in the chart below:-



- 7.3 The increase has been due to the continued lack of a monthly payroll interface from the Council, the largest employer, which means all starters, opt-outs, leavers and change notifications are being processed manually. Following the issue of approx 4,300 active statements in early September, the caseload increased from then through to November 2017 due to additional data cleansing and verification being done manually on member records, in order to issue further batches of active benefit statements by end of December.
- 7.4 The lack in quality data received from the Council, and the payroll provider, continues to have a significant impact on workloads, with data cleansing and validation being a priority for the annual benefit statements. Considerable problems still remain with the Council's payroll system and as a year-end file was not provided, extrapolated data from monthly returns was used to update member records sufficiently to produce some of the annual benefit statements within the regulatory timeframe.
- 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 **all** of its members by the end of August 2017, and the Council was obliged, again, to report itself to tPR, setting out what had happened and the steps it had taken to correct the issue. No further action was taken by tPR.
- 7.6 Performance under the pension administration contract when compared to the service level agreement (SLA), was 94.4% for 2017/18 as a whole, which is a slight decrease on 97.1% in 2016/17. This in its self is an achievement considering the difficulties the administrators had to overcome again this year. The performance v SLA over 2017/18 in comparison to 2016/17 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
- Certificates of Continued Entitlement (life certificates) were issued to all overseas pensioners and pensioners over the age of 80. This revealed 3 deaths that had not been previously notified to the administrators and 4 people who require power of attorney as they could no longer manage their own affairs.
- Data submissions:
  - FRS17 data submitted to the Actuary for 14 employers
  - Data submission for Club Vita longevity studies
  - 3 cessation valuation calculations for ceased employers
  - Monthly HEAT data capture report to the Actuary
- Overpayment of pensions - identified overpayments to a value of £92,862.03. These were as a result of late death notifications and re-employment cases. To date £41,817.23 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 number of employers where

persistent failure to deliver accurate and timely information, despite support, has arisen. In most instances there was a 1 or 2 day delay in getting the contribution payment or supporting data to Equiniti, and employers have been reminded of the regulatory requirements to ensure payments due to the Fund are made by the 19<sup>th</sup> of the month.

## **8. OTHER WORK UNDERTAKEN IN 2017/18**

### **8.1 Third Party Administration contract**

The administration 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. A short term contract extension to 31 December 2017 was agreed with the Council's Legal department and Equiniti in order to allow sufficient time for an orderly transition to a new administrator, if necessary, and for the Council to complete the transition of the payroll contract to any new provider in July 2017.

Following the procurement exercise for Third Party Pension Administrators using the National LGPS Framework, the Pensions Committee met on 25 April 2017 and approved the award of the contract to Equiniti, the previous holders of the contract. However, due to issues with the service specifications, interfaces not ready for testing, the administration system at Equiniti is yet to be reconfigured to accept the full monthly data reports, it was agreed by both parties to delay the contract commencement date of 1 January 2018 to 1 April 2018

Despite good progress being made in many areas of the new specification during the 'go-live' extension period, there were still a number of essential points of delivery that had yet to be completed such as monthly interface, monthly MI reporting in relation to SLAs and KPIs, website & secure portal with guides and factsheets. Due to these continued delays, the Council has agreed to once again extend the commencement date from 1 April to 1 July 2018. Final negotiations regarding specific terms of the new contract have now been agreed and finalised.

### **8.2 Ill Health Pension Benefits.**

The in-house Pension Administration Team process all requests for the release of deferred member's benefits on the grounds of ill health, as well as assisting the Council's HR team with the process for the release of active member's benefits on the grounds of ill health.

Active members' ill health pensions are released on one of 3 tiers, depending on the severity of the condition under which they are being retired:

- Tier 1 - the pension benefits are fully enhanced to the member's normal retirement date – paid for life, no review
- Tier 2 – the pension benefits are enhanced by 25% of the years left to the member's normal retirement date - paid for life, no review
- Tier 3 - the pension benefits accrued to date of leaving employment - paid for a maximum of 3 years and a review is undertaken once the pension has been in payment for 18months.

Deferred member's ill health benefits are released for life and are based on the benefits accrued to the date of leaving employment, with the addition of pension increase, but they are not enhanced by the previous employer.

A breakdown of the number of active and deferred cases that were processed for 2017/18 is provided below, compared to the previous year:

DEFERRED MEMBER'S ILL HEALTH RETIREMENT CASES					
	CASES RECEIVED	SUCCESSFUL	UNSUCCESSFUL	ONGOING	WITHDRAWN
2017/18	10	5	2	2	1
2016/17	20	13	5	0	2
ACTIVE MEMBER'S ILL HEALTH RETIREMENT CASES					
	CASES RECEIVED	BENEFITS RELEASED ON TIER 1	BENEFITS RELEASED ON TIER 2	BENEFITS RELEASED ON TIER 3	UNSUCCESSFUL
2017/18	6	4	0	2	0
2016/17	3	3	0	0	0

### 8.3 Quarterly Newsletter – Employers/Schools

The in-house pension team continue to produce their quarterly Newsletter to employers (and schools) in the Fund. Over the last year, the newsletter has covered the actuarial valuation; the proposed exit cap; details of State Pension Age increases; the role of the Pensions Regulator; raising awareness of the 50/50 section of the scheme; GDPR effective 25 May 2018; feedback on the employer forum and details of the year-end processes for employers to provide the information needed to produce the 2018 annual benefit statements. Feedback on the newsletter has been positive and it is well received.

### 8.4 Pre-retirement workshops

During Q4 of 2017/18, the Pensions Team have set up a series of 'Pre-retirement workshops', aimed at members who are thinking of retiring within the next 2 to 5 years. These workshops began in May 2018 and run bi-monthly until January 2019, and will be in conjunction with a company called Affinity Connect. Affinity specialise in providing seminars/workshops on various aspects of pension and employment issues, such as retirement (as mentioned), mid-career financial planning and redundancy. Affinity provide the facilitator, learning material and bookings for the seminars/workshops free of charge to the Fund. If this first series of workshops is successful, we aim to roll these workshops out on an annual basis.

### 8.5 Annual Employer's Forum

The annual Employer Forum was held on 9 March 2018, and was attended by 14 of the Fund employers, including 7 schools. The Forums agenda was varied and covered subjects from employer roles and responsibilities, year-end timetable & processes, and the commencement of GDPR from 25 May 2018. Equiniti presented on the importance of correct & timely data; AON provided a presentation on '*pension hot topics*'; the Pensions Regulator (tPR) on the importance of compliance with COP14, and finally the Prudential on AVCs.

## 8.6 New & Ceasing Employers

During the year the Fund has admitted 2 new scheduled employers and 3 employers' contracts have ceased; breakdown is as follows:

Employer	Date Joined	Date Ceased	Deficit upon Ceasing Y/N
The Boxing Academy (conversion)	01/05/2017		
COLASP (City of London Academy, Shoreditch Park)	01/09/2017		
P J Naylor Cleaning Services		31/07/2017	N
Outward		31/12/2017	awaiting
Family Solutions		05/01/2018	awaiting

At the time of writing this report, there are 2 cessation valuations outstanding, this is due to some data anomalies that the Fund's actuary is currently clarifying with Equiniti. It is not expected that the ceasing employers' valuation results will be in deficit.

## 8.7 Redundancy Exercises for Departmental Budget Purposes

In 2017/18, the in-house pensions team received a total of 496 redundancy estimate requests, some of these were for members over the age of 55 who will have pension released. The team provided leaver paperwork for 77 employees who were made redundant. Breakdown of requests is provided below:-

Age Group	Redundancy Estimate Requested	Leaver Paperwork Provided
Under 55 – without pension	335	44
Over 55 – with pension	161	33
<b>Total</b>	<b>496</b>	<b>77</b>

## 8.8 Employer Data Audit

The Funds Benefits & Governance Consultants, AON, were again asked to carry out a review of the quality of data being supplied to the Pension Fund from its employers. Equiniti and officers at the Council co-operated fully with AON in regard to data gathering and providing relevant evidence for the report. The report, published in June 2017, key findings included:

- A handful of employers failing to provide an annual return
- Most are providing a monthly return, although approximately 1/3<sup>rd</sup> do not provide this in a consistently timely manner. The same applies to payment of contributions.
- Many employers still score poorly on accuracy, with difficulties in reconciling contributions paid to pensionable pay. Annual returns are generally worse affected than the monthly reporting.
- A small number of providers are responsible for the provision of data for a large majority of the membership. Significant issues have previously been reported in connection with these providers, and this remains a significant risk.

A number of the issues where they relate to the provision of data by the Council itself, have been addressed with the transition of payroll provider from Resourcelink to

iTrent during July 2017. Additional support and training has been provided to other employers to assist with making improvements to accuracy of data and timeliness, but as a last result, charges are levied where employers continually fail to provide either information or payment in a timely fashion

## **8.9 Weekly Inductions**

In the last year, the in-house Pensions team based at the Council, have presented at weekly induction sessions for 395 new employees, ensuring they are provided with information on the benefits of the Pension Scheme. Feedback from these sessions continues to be extremely positive, with 323 of those who attended felt the sessions were either 'excellent' or 'very good' and leave the sessions having a better understanding of the scheme and its benefits.

## **9. THE PENSIONS REGULATOR (tPR)**

9.1 Following the Pensions Regulator assuming responsibility for setting standards of governance and administration in public service pension schemes, 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.

9.2 The Code requires Schemes to report breaches of the law to the Regulator where they have reasonable cause to believe that:

- a legal duty which is relevant to the administration of the scheme has not been, or is not being, complied with
- the failure to comply is likely to be of material significance to the Regulator in the exercise of any of its functions

9.3 As detailed in paragraph 7.5 of this report, the March 2017 annual benefit statements could not be issued to **all** members within the regulatory timescales due to poor quality and the non-receipt of data from employers in the Fund. This resulted in the Council having to report itself to the tPR for non-compliance for the 3<sup>rd</sup> year:

- **June 2017** - failing to issue all active benefit statements by 31 August 2017. However, all statements for deferred members were issued by the deadline, along with approximately 4,300 statements for active members. An action plan agreed with Equiniti, and the remaining 2,400 statements to be issued by mid-October, and we will continue dialogue with tPR on progress.
  - tPR did not impose a fine providing statements issued by agreed extended deadline.
- **November 2017** - failing to issue remaining active benefit statements by mid-October, after extended deadline had been agreed with the Regulator. A batch of 783 were sent early October, the remaining 1,600 records had insufficient data to produce a statement. Action plan was agreed to clear the data queries and a commitment to issue the outstanding statements by 31 December 2017.
  - tPR did not impose a fine providing statements issued by agreed deadline.



- 9.4 At the time of writing (July 2018), work continues on the remaining 1,600 data queries which relate to LB Hackney employees, and good progress has been made with approx 1,200 records being resolved by the in-house pension team. The remaining 400 data queries, are unconfirmed leavers and/or opt-outs and once the correct information has been received from payroll, the record will be corrected and a deferred benefit statement issued.

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