

REPORT OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES		
Pension Fund Administration Annual Report 2018/19	Classification Public	Enclosures: None
	Ward(s) affected	AGENDA ITEM NO.
Pensions Committee 25 June 2019	ALL	

1. INTRODUCTION

- 1.1 This report outlines the work undertaken by the London Borough of Hackney, (as the administering authority), and the performance of the pension fund administrators, in regard to the administration of the LGPS Hackney Pension Fund for the financial year 2018/19. 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 Pensions Administration Team within the Financial Services Section of the London Borough of Hackney.

2. RECOMMENDATIONS

- 2.1 **The Pensions Committee 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 2018/19 was £776k, compared to £827k in 2017/18.
- 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 £32.07 based on the current cost and membership at 31 March 2019, compared to £36.07 at 31 March 2018.

- 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 Committee, acting in its capacity as the Trustee of the Pension Fund, has 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 Committee in ensuring that it fulfils its regulatory obligations under the Local Government Pension Scheme Regulation.
- 5.3 There are no immediate legal implications arising from this report.

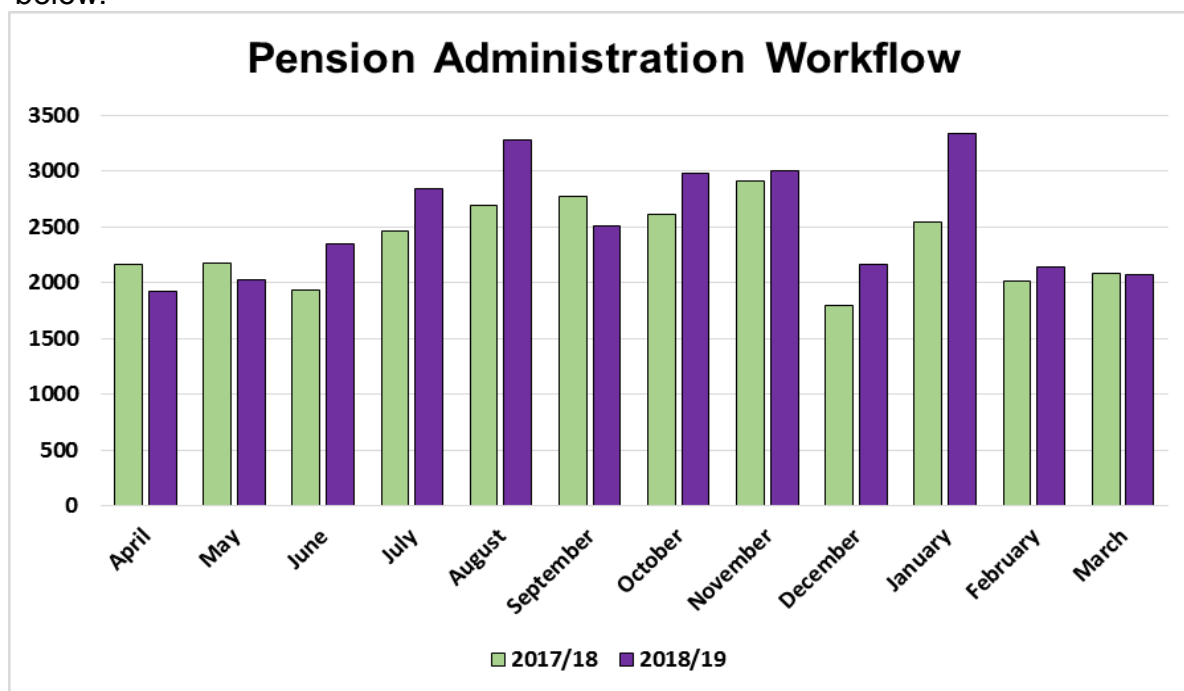
6. SUMMARY

- 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 Pensions Administration Team within 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 30,608 cases, an increase of 2,447 on the previous year of 28,161.
- 6.2 Overall performance against the SLA has shown a slight increase for 2018/19 at 95.7%, compared to 94.4% for 2017/18, which is a considerable achievement despite the increased workflow and the continued difficulties faced by the administrator, due to the main employer in the Fund, London Borough of Hackney's failure to provide any quality reporting since changing payroll provider in July of 2017. Despite these ongoing difficulties, Equiniti have successfully issued 4,244 annual benefit statements to active members, and 8,805 benefit statements to deferred members, including Councillors and pension credit members for the year ending 2018.

7. ADMINISTRATION PERFORMANCE

- 7.1 The performance of the pension fund administrators, Equiniti, is monitored by the Pensions Administration Team within 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 year the total cases received by the administrators has increased from 28,161 cases in 2017/18, to 30,608 in 2018/19, an increase of 2,447 cases. The average number of cases received monthly has increased to 2,550 from 2,346 in 2017/18. The workload for 2018/19 in comparison to 2017/18 is shown in the chart below:-



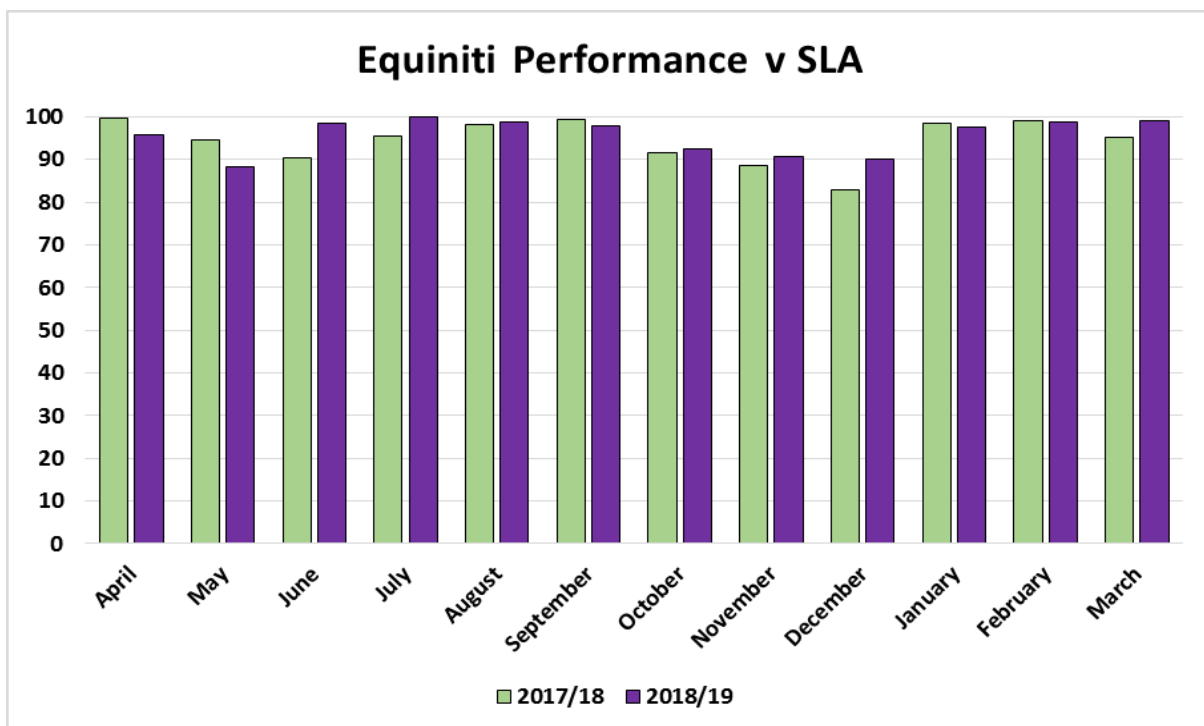
7.3 The increase in workflow is due to the continued lack of a monthly payroll interface from the Council, the largest employer, which means all starters, opt-outs, leavers and change notifications are being processed manually. Intensive work was undertaken from June to August to correct member data and issue as many active benefit statements as possible within the statutory deadline. However, due to the data complexity and the number of affected records, the Fund took the decision to only issue statements at the time to those active members who are not employed by London Borough of Hackney, and to continue data cleaning and verification of the Hackney membership.

7.4 Therefore, the Fund only issued 627 active statements in early September, and as such the workflow increased from October 2018 right through to year-end in order to correct the remaining member records and recalculate benefits. A further batch of 3,616 active benefit statements was dispatched at the end of November, with further batches to be sent as soon as the data was cleansed and verified.

7.5 The lack in quality data received from the main employer in the Fund, London Borough of Hackney, still continues to have a significant impact on workloads, with data cleansing and validation, again being the focus and priority throughout the year in order to produce the annual benefit statements. Considerable problems still remain with the Council's payroll system set up which is prohibiting the running of the necessary reports for pension purposes. The failure to produce a year-end file this year has meant the administrator once again using extrapolated data from a month 12 report and incorporating data cleansing reports provided by the administering authority's pension team, to update member records sufficiently to produce some of the annual benefit statements for members of this employer.

7.6 As a year-end file was not provided by the London Borough of Hackney, the Fund was not able to comply with its regulatory duty of providing annual benefit statements to **all** of its active members by the end of August 2018, and the Fund was obliged, again, to report itself to the Pensions Regulator (tPR), setting out what had happened and the steps taken/being taken to correct the issue. At this time, no further action was taken by tPR, however the Regulator requested that regular updates be provided on the progress of the data cleanse and dispatch of statements.

7.7 Performance under the pension administration contract when compared to the service level agreement (SLA), was 94.4% for 2017/18 as a whole, and performance has slightly increased to 95.7% for the year 2018/19. This in its self is an achievement considering the difficulties the administrators had to overcome again this year with the issues pertaining to the main employer’s data. The administration performance v SLA over 2017/18 in comparison to 2018/19 is shown in the chart below:-



7.8 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
- Data submissions:
 - FRS17 data submitted to the Actuary for 15 employers
 - Data submission for Club Vita longevity studies
 - 2 cessation valuation calculations for ceased employers
 - Monthly HEAT data capture report to the Actuary

- Overpayment of pensions - identified overpayments to a value of £32,564.26. These were as a result of late death notifications and re-employment cases. To date £17,251.72 has been recovered.

7.9 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. Additional administration charges were issued to a number of employers in the year, but only where persistent failure to deliver accurate and timely information, despite the additional support, has arisen.

7.10 The monthly contribution payment and supporting data is due to the Fund by the 19th of the following. In the last year, submissions have only been delayed for a period of 1 or 2 days, and if a first offence the employer is not usually charged. However, the persistent late submission of payments and data does incur a penalty charge in accordance with the Fund's administration strategy. A breakdown of late submissions in relation to contributions and supporting data, is provided below:-

Month	Description	Number of Late Submissions
Apr-18	contributions	1
	HK221 data	1
	contribution & HK221	0
May-18	contributions	1
	HK221 data	3
	contribution & HK221	0
Jun-18	contributions	0
	HK221 data	2
	contribution & HK221	2
Jul-18	contributions	3
	HK221 data	2
	contribution & HK221	2
Aug-18	contributions	0
	HK221 data	5
	contribution & HK221	0
Sep-18	contributions	0
	HK221 data	2
	contribution & HK221	0
Oct-18	contributions	2
	HK221 data	1
	contribution & HK221	0
Nov-18	contributions	2
	HK221 data	0
	contribution & HK221	1
Dec-18	contributions	2
	HK221 data	2
	contribution & HK221	0
Jan-19	contributions	1
	HK221 data	2
	contribution & HK221	0
Feb-19	contributions	1
	HK221 data	0
	contribution & HK221	0
Mar-19	contributions	0
	HK221 data	4
	contribution & HK221	0

8. OTHER WORK UNDERTAKEN IN 2018/19

8.1 Third Party Administration contract

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 the previous holders of the contract, Equiniti. The contract commencement date of 1 January 2018 was initially delayed to 1 April 2018 due to problems with the delivery of various service specifications. However problems persisted and it was mutually agreed to once again, extend the 'go-live' date to 1 July 2018 which was implemented.

8.2 Since 1 July, there has been good progress made on the outstanding service specifications;

- Payroll Interface - meaningful progress has now been made on development of a new interface for the Council; however, this is likely to generate a significant backlog of data queries for Equiniti once up and running
- Communications suite (member letters, member factsheets, forms etc) – fully updated and improved for automation
- Scheme guides – both brief and full versions for members have been updated but not quite complete
- Employer's Guide to LGPS Pension Administration – electronic version complete and being load to website with links to forms and other useful guides
- Static website – a completely new website has been designed with access to Fund and LGPS information, member and employer on-line services
- MSS (member self-service) – testing completed and ready to launch September/October 2019
- ESS (employer self-service – a secure portal for employers to upload member data directly to administration system; data validation at the point of entry and rejected if not within set parameters
- Employer reporting – enhanced reporting on employer administration performance
- Breaches reporting – enhanced 'breaches of the law' reporting enabling Fund to better assess material/non-material breaches

8.3 Work will continue into 2019/20 and until the Fund is satisfied that all points of delivery are met, and the required standards are maintained throughout the life of the contract

8.4 Ill Health Pension Benefits.

The administering authority's 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 providing guidance and assisting the Council's HR team when they process cases for active member's that seek to retire 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 and the decision to release benefits rests solely with the member's employer, not the Fund:

- 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 2018/19 is provided below, compared to the previous year:

DEFERRED MEMBER’S ILL HEALTH RETIREMENT CASES					
	CASES RECEIVED	SUCCESSFUL	UNSUCCESSFUL	ONGOING	WITHDRAWN
2018/19	9	3	2	3	1
2017/18	10	5	2	2	1
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
2018/19	6*	4	0	1	0
2017/18	6	4	0	2	0

**There is 1 active member’s case that was not completed in the reporting quarter, as the employer’s IHRP (ill health retirement panel) have requested a second opinion from the occupational health service (OHS) before making a final decision.*

8.5 Quarterly Newsletter – Employers/Schools

Due to other work pressures, the pension team were only able to produce 2 newsletters in the last year – 1 in April 2018 & 1 in December 2018 - for the employers and schools in the Fund. However, the newsletters continue to provide up to date *hot-topics* from the world of pensions and have covered details of State Pension Age increases; details of ScamSmart and what to look out for: AVC information; feedback on the employer forum and details of the year-end processes and information needed to produce the 2018 annual benefit statements. Feedback on the newsletter has been positive and it is well received.

8.6 Pre-retirement workshops

The Pensions Team arranged 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. They were facilitated by Affinity Connect, who specialise in providing seminars/workshops on various aspects of pension and employment issues, such as retirement, mid-career financial planning and redundancy. Affinity provide the facilitator, learning material and bookings for the seminars/workshops free of charge to the Fund. Feedback on these has been extremely good, so they will continue into 2020/21.

8.7 Annual Employers' Forum

The annual Employers' Forum was held on 7 March 2019, and was attended by 4 of the Fund employers, including 2 schools and 3 academies. The Forums agenda was varied and covered subjects from the Fund overview, employer discretion policies and the year-end data timetable & processes for the annual benefit statements. AON gave us some insight into 'pension hot topics' and Hymans (the Funds actuary) spoke about the forthcoming 2019 Valuation exercise. Equiniti guided us through a demo of the new on-line self-service facilities for both employers and employees/members to use, together with an overview of our new LGPS website – all of which will be launched in the summer of 2019.

8.8 New & Ceasing Employers

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

Employer	Date Joined	Date Ceased	Deficit upon Ceasing Y/N
Lubavitch MAT	01/04/2018		
Lubavitch Foundation	01/04/2018		
Westgate Cleaning Services (Simon Marks school)	01/05/2018		
Birkin Cleaning (Randal Cremer school)		20/07/2018	N
G4S (security services)		03/08/2018	N
CIS - Security	04/08/2018		
P J Naylor Cleaning Services (Grasmere school)	01/10/2018		

8.9 Redundancy Exercises for Departmental Budget Purposes

In 2018/19, the administering authority's pension team received a total of 228 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 32 employees who were made redundant. A breakdown by age group is provided below:-

Age Group	Redundancy Estimate Requested	Leaver Paperwork Provided
Under 55 – without pension	113	14
Over 55 – with pension	115	18
Total	228	32

8.10 Weekly Inductions

In the last year, the Pensions team have presented at weekly induction sessions for 503 new employees, ensuring they are provided with information and details on the benefits of being in the LGPS. Feedback continues to be extremely positive, with 428 of those who attended felt the sessions were either 'excellent' or 'very good' and now have a better understanding of the scheme and its benefits.

9. THE PENSIONS REGULATOR (tPR)

9.1 The Pensions Regulator introduced the Public Service Code of Practice, setting out practical guidance, 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 their local Pension Boards, whose role it is to help ensure their scheme complies with the 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 Therefore as in paragraph 7.5 of this report, the March 2018 annual benefit statements could not be issued to **all** active members within the regulatory timescales due to the non-receipt of data from the Fund's main employer in the Fund, the London Borough of Hackney. This resulted in the Fund having to report itself to the tPR for non-compliance for the 4th year running. The following provides some of the detail the Fund was required to provide to the Regulator:

- Q2 2018/19:-

The Fund experienced a breach relating to Annual Benefits Statements which was reported to TPR. The Fund breached the statutory deadline for statements for approximately 6,000 active members, the vast majority of whom were employed by Hackney Council or its maintained and voluntary-aided schools. The failure to send these statements primarily resulted from the failure of Hackney Council to provide year-end data by the deadlines requested.

- Q3 2018/19:-

A further 3,616 additional benefits statements for active members were sent out by Equiniti for distribution in early November 2018. Equiniti continued to work on the production of statements for the remaining 1,600 (approx.) active members.

- Q4 2018/19:-

The Fund provided a further update to the Regulator, via a conference call, in March 2019, discussing progress towards rectifying the breach and preventing recurrence in the future. Following the call, the Fund were requested to provide the Regulator with copies of all data improvement plans, evidence of the Fund invoking their pension administration strategy levies and expected delivery dates to comply with legislation.

9.4 At the time of writing this report (June 2019), the investigations on remaining 1,600 data queries were completed and a further 472 active benefits were dispatched at the end of May 2019, and 1,276 apology letters were dispatched to those members for whom the Fund was not able to provide a statement to. This was either due to complex data problems or calculation issues that could not be resolved in time for a statement to be issued before work was scheduled to begin on the 2019 year-end process.

9.5 A detailed update was provided to the Regulator in early May 2019, who has now requested a meeting with the Fund, the Council's 151 Officer and representatives from the main employer, and this will be held on 13 June 2019. A report on the meeting will be provided to Pension Committee at their next meeting in September 2019.

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