

**Agenda Item No:**

**4**

**LONDON PENSIONS FUND AUTHORITY  
LOCAL GOVERNMENT PENSION FUND ADMINISTRATION REPORT**

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**Purpose of the report**

This report is provided by the London Pensions Fund Authority (LPFA) giving a quarterly update on the delivery of the pensions fund administration services in the following sections.

Section 1: Statistics and key performance indicators

Section 2: A progress report on projects and key activities

Section 3: An update on LGPS regulatory changes, including the latest news on the potential scheme changes

**Recommendations**

That the Board notes the contents of this report.

## SECTION 1 STATISTICS AND KEY PERFORMANCE INDICATORS

### 1.1 Pensions Fund Statistics

**Scheme Membership:** The following graph provides an analysis of total membership to the Scheme which shows active membership has decreased by 299 members, pensioners have increased by 261 and deferred members have increased by 1,035 during Quarter 2 2016/17.

The changes in numbers of deferred members have resulted from processing year end returns for Scheme Employers where they did not notify LPFA during the year of leavers during the year. We are actively working with Scheme Employers to address the issue of timely notification of membership changes.



**Scheme Employers:** The total number of active scheme employers in the Pension Fund has increased by 8 during the last quarter. There are currently 261 active employers and a further 146 employers with deferred and pensioner liabilities.

### 1.2 Performance Indicators

Performance of the Pension Fund is measured in the following key areas:

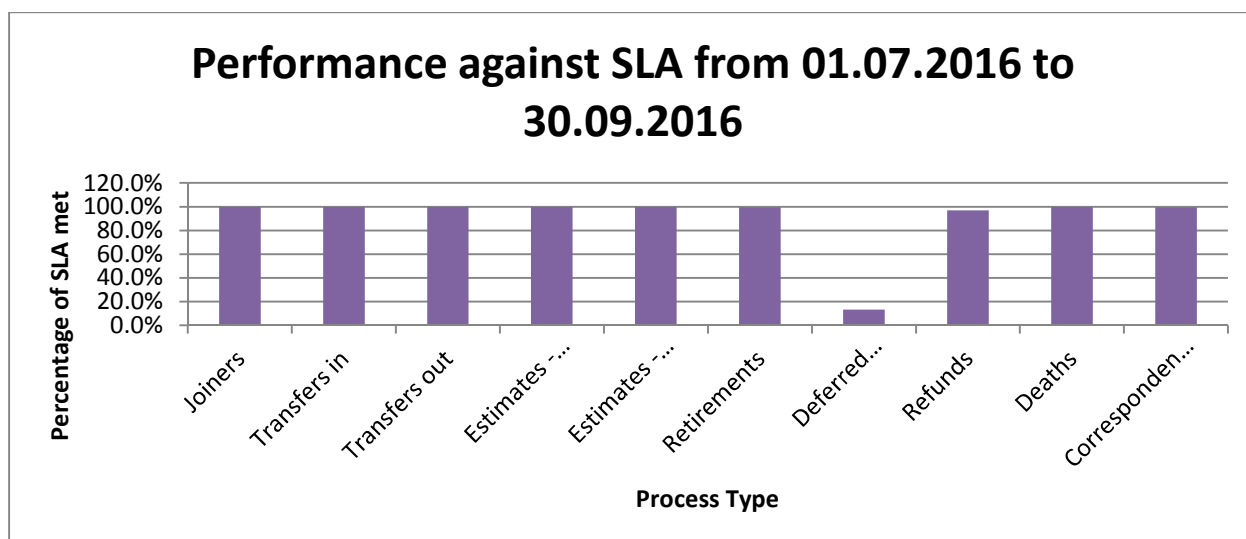
- The LPP Pensions Administration Services is measured against key performance indicators that measure compliance, efficiency and effectiveness of the service. See Section 1.3.
- Scheme Employers' performance is measured against requirements set out in the Administration Strategy. See Section 1.4; and
- The Pension Fund is measured against statutory requirements and the effectiveness of its management and governance of the Fund. Separate quarterly reports providing

commentary on key governance and risk management issues are provided to the Pensions Committee summarising performance in the Risk and Performance Report with a detailed report provided to the Pension Board in the Governance and Risk Management Report.

### 1.3 Performance for the LPFA Pensions Administration Service

**Service Level Agreement and Volumes:** The following graphs provide a quarterly review of key areas and performance achieved. Performance overall during the period was over 72%. Excluding the processing of Deferred Benefits cases which is impacted by the increased volumes of cases discussed in section 1.1, the on-time processing is in excess of 99%.

During the period 1 January 2016 to 30 September 2016, 6134 Deferred Benefit cases were received. This is over 50% increase from the same period in 2015. Currently, 1599 Deferred Benefit cases are in progress, of which 862 are outside of the 20 working day SLA and 737 have future due dates. 860 of the Deferred Benefits were received in 2016. There is one case from 2013 and one case from 2015 where more information was required from the employer and has recently been received. The backlog has been ring-fenced and will be worked on over the next three months during overtime to complete an additional 287 cases per month completing this project by 28 February 2017. This issue will continue to be discussed with officers at Hertfordshire County Council on an ongoing basis.



The overall level of cases completed in the previous four quarters is shown in the following table. The variation across the quarters reflects normal annual volume fluctuations across all case types except for deferreds, joiners and refunds where additional cases have been identified through year end processing discussed in section 1.1.

<b>Key Processes Completed</b>	<b>01.10.2015 to 31.12.2015</b>	<b>01.01.2016 to 31.03.2016</b>	<b>01.04.2016 to 30.06.2016</b>	<b>01.07.2016 to 30.09.2016</b>
Joiners	848	1125	786	581
Transfers in	197	304	482	513
Transfers out	196	259	195	175
Estimates - member	564	597	585	527
Estimates - employer	174	208	205	99
Retirements	814	876	809	991
Deferred benefits	1,456	1,510	1,759	2,665

Refunds	404	668	772	325
Deaths	205	355	261	222
Correspondence	1,325	1,377	9,017	1,729
<b>Total Key Processes Completed</b>	<b>6,183</b>	<b>7,279</b>	<b>14,871</b>	<b>7,827</b>

**LPP Pensions Administration Service Complaints:** The quality and effectiveness of the service is, in part, measured against the number of complaints received about the pension administration service. The following chart provides a summary of the status of complaints and those that are now being reviewed under the Internal Dispute Resolution Procedure (IDRP).

In the quarter 7,827 cases were completed and 2 complaints received.

Complaints and Internal Dispute Resolution Procedures	Oct – Dec 2015				Jan–Mar 2016				Apr – June 2016				Jul – Sept 2016			
	BBF Previous Quarter	New	Completed - Upheld	Completed - Not Upheld	BBF Previous Quarter	New	Completed - Upheld	Completed - Not Upheld	BBF Previous Quarter	New	Completed - Upheld	Completed - Not Upheld	BBF Previous Quarter	New	Completed - Upheld	Completed - Not Upheld
LPP Service Complaints	1	3	4	0	1	3	1	0	2	1	3	0	0	2	2	0
Administering Authority Complaints	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Administering Authority IDRPs	0	1	0	0	1	1	1	0	1	0	0	1	0	3	0	2
<b>Total</b>	<b>1</b>	<b>4</b>	<b>4</b>	<b>0</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>0</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3</b>	<b>2</b>	<b>0</b>

#### LPFA Service Complaints:

- A complaint was received from a pensioner due to a large amount of tax being deducted on their first payment. Their pension was due to go into payment 18 months previously but the completed forms were not returned until recently. This resulted in 18 months of arrears being paid within their first payment which in turn meant a large amount of tax was deducted. LPFA wrote to the member explaining that HMC guidelines had been followed and advised the member contacted HMRC personally to resolve the issue as they will not speak to LPFA regarding individual member tax queries. This complaint is now closed.
- A complaint was received from a member regarding the transfer of benefits from Enfield Borough Council. Despite our regular chaser letters to Enfield they had not been timely in responding to us due to the recent changes in regulations and GAD factors. The information has now been received and the complaint has now been closed.

#### Administering Authority Complaints:

- None

#### Administering Authority IDRPs:

- A stage 1 appeal received during Q1 was responded to from a member contesting an overpayment of pension following the implementation of a pension sharing order. The

appeal was dismissed by the Administering Authority, as statutory timescales for setting up the order were met, and reclaiming the overpayment was therefore justified.

- A stage 1 appeal has been received following the correction of GMP payment uncovered as part of the continuing GMP Project. The pensioner objected to the reduction in pension and requested that monies are reinstated. This appeal has not been upheld by Hertfordshire County Council.
- A stage 1 appeal has been received following the correction of GMP payment uncovered as part of the continuing GMP Project. The pensioner objected to the reduction in pension and requested that monies are reinstated. LPP are assisting Hertfordshire County Council with their response as required.

#### **1.4 Scheme Employer Performance Indicators**

The Administration Strategy sets out the quality and performance standards expected of the Pension Fund and its scheme employers. The Strategy also sets out the potential sanctions that will apply in the event of failure to comply.

**Penalties for Late Payment of Contributions:** There were 14 instances of late payments being made by employers during the period July 2016 to September 2016 out of approximately 1000 payments due, and details are provided in the attached table at Appendix 1. A summary of payment performance over the last 6 months is also included showing the total instances of late payments, together with cumulative totals for days late and amount payable for all relevant employers.

The team continues to take a proactive approach to monitoring late payers and officers at Hertfordshire County Council are provided with a monthly report of late payers so that penalties may be applied where applicable.

## **SECTION 2 PROJECTS AND KEY ACTIVITIES**

### **1. Employer Covenant**

The LPFA and Hertfordshire County Council Pension Team meet on a monthly basis to monitor the progress of Scheme Employer admissions and terminations. This includes a risk review of Scheme Employers and imminent changes that may affect their funding position or ongoing admission to the Pension Fund. Risk monitoring for Scheme Employers is in place via risk scoring, and seeks to provide a mechanism for early identification of issues. An update is provided to the Pensions Committee as part of the quarterly Risk and Governance Report.

The annual employer surveys will not be issued this year as HCC will be focussed on the 2016 valuation results. Any risks identified will continue to be added to the risk monitoring register.

### **2. GMP Reconciliation**

In April 2016, contracting out status for all UK defined Benefit schemes will end. From January 2019, HMRC will no longer provide relevant information to Schemes and statements will be issued to individuals based on the final position recorded at the end of 2018. Before this happens all schemes will need to reconcile their GMP data against that held by HMRC to ensure that correct liabilities are recorded and to avoid pensions being over/under paid or being faced with the burden of paying a GMP for members who are no longer in their Scheme..

The project to address this work is now underway and appropriate resources have been put in place to ensure the project is delivered on time and to the agreed budget.

The current position of the HCC GMP reconciliation project is as follows:

- Payroll Revisions
  - A total of 639 pensioner records have been reviewed with 142 pension revisions having now been passed to payroll.
  - The overall impact of the pensions payroll of these revisions amounts to a reduction of £21,786 per annum.
  - The total overpayment amount calculated so far amounts to £134,717
  - These revisions have been split over the August to November payroll runs.
- Contracted-out Dates and GMP queries
  - All queries arising from the analysis relating to Contracted-out Dates or GMP amounts for the deferred and pensioner members have now been investigated and uploaded to HMRC
- “Multiple Record” Members
  - The manual reconciliation of the members with either multiple Altair records or multiple lines of data on HMRC’s output has now been completed.
  - Queries arising from this reconciliation have also been uploaded to HMRC.
  - Pensioner records that have been identified as requiring revision will form part of the next phase of the reconciliation project.

- Outstanding “Not in Scheme” Queries
  - The majority of HCC’s “Not in Scheme” queries have now been investigated and query listed have been uploaded to HMRC.
  - The majority of the records remaining are due to insufficient information being available to adequately prove to HMRC that the liability for the GMP does not reside with HCC.
  - The LPP will be attending a meeting held by the PLSA on 17th November where HMRC will be present to discuss the issues that Schemes are facing with the reconciliation process and we can hopefully agree on a way forward with the remaining records.

## **SECTION 3 LGPS REGULATIONS AND SCHEME CHANGES**

### **1. Amended Government Actuarial Department Factors – Late Retirement**

The Government Actuary's Department has released revised factors for retirements for those who delay their retirement beyond State Pension Age (SPA).

The changes come into effect from 4 January 2017 and are significantly reduced from those in place previously.

The factors for actuarial increase have been reduced from 0.014% to 0.01% for annual pension (for each day worked past SPA) and from 0.007% to 0.001% in respect of lump sums.

Whilst this will affect a relatively small number of scheme members, LPP will be discussing with HCC whether they may wish to inform and such members of this potential reduction.

### **2. HMT Regulations - £95k cap on redundancy and exit payments**

#### **Exit Cap**

There will be a further consultation this autumn on regulations for the £95,000 exit payment cap; the regulations will therefore not be in force in October as originally anticipated. Following this consultation it is hoped that regulations will be published and in force early next year.

#### **Exit Payment Recovery**

The recovery regulations for those earning £80,000 or more who leave public sector employment and return within a year are expected to be published and in force this year, subject to being passed by both Houses of Parliament under the affirmative process.

#### **Government response to the further consultation on exit payment reform**

The government has recently responded to the further consultation on exit payments confirming that it intends to proceed with plans for further reform.

Summary of the proposals:

- A maximum tariff for calculating exit payments of three weeks' pay per year of service. Employers could apply tariff rates below these limits
- A ceiling of 15 months on the maximum number of months' salary that can be paid as a redundancy payment. Where employers distinguish between voluntary and compulsory redundancies there may be a case for maintaining a differential by applying a lower limit. Likewise, where employers offer voluntary exit packages that are not classed as redundancies there may be a case for applying a different maximum. Employers could apply lower limits, as some do at present.
- A maximum salary on which an exit payment can be based. As a starting point the government will expect this to align with the existing NHS scheme salary limit of £80,000
- A taper on the amount of lump sum compensation an individual is entitled to receive as they get closer to their normal pension age
- Action to limit or end employer-funded early access to pension within exit packages. As part of an overall package the government will consider proposals appropriate to each workforce, including action to:
  - Cap the amount of employer funded pension 'tops ups' to no more than the amount of the redundancy lump sum to which that individual would otherwise be entitled
  - Remove the ability of employers to make such top ups altogether, or offer greater flexibility to employers as to the circumstances in which they are available



- Increase the minimum age at which an employee is able to receive an employer funded pension top up, so that this minimum age is closer to or otherwise linked more closely with the individual's normal pension age in the scheme in which they are currently accruing pension benefits or to which they would be entitled to belong if they were accruing benefits

### **Who is in scope?**

- Current and future public sector employees
- The major workforces covered by existing statutory compensation schemes and other contractual exit arrangements. These are the Civil Service, NHS, Local Government, Teachers, Police, Firefighters and (taking account of the unique nature of the occupation) Armed Forces
- Those covered by any new compensation schemes set up for public sector employees
- In other areas, and for smaller public sector workforces, the government would encourage reforms consistent with the principles set out in this response
- Devolution: the policy would extend to all employments where compensation policy and practice is within the competence of the UK government. The Scottish government, Welsh government and Northern Ireland Executive would determine if and how they wanted to take forward similar arrangements in relation to devolved bodies and workforces.

### **Transitional arrangements**

The government will consider the case for protection for those with exits formally agreed on terms that applied before new workforce exit compensation arrangements come into effect. The government expects the details of such protection will form part of the agreements reached by the relevant department with each workforce in scope of the reforms.

### **Timing**

The response confirms that the government expects departments to produce packages consistent with the framework above and consult on these where appropriate.

The government will expect departments to produce these proposals within three months of the publication of the response (i.e. by 26 December 2016) and to have completed negotiations and made the necessary amendments to exit arrangements within nine months of the publication of the government response (i.e. by 26 June 2017). Given that the compensation arrangements and employer-funded early access to pension are both contained within statutory instruments for the LGPS this will be a challenging timetable.