

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

**Agenda  
Item No:**

**7**

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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, by the Local Pensions Partnership (LPP), 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:**

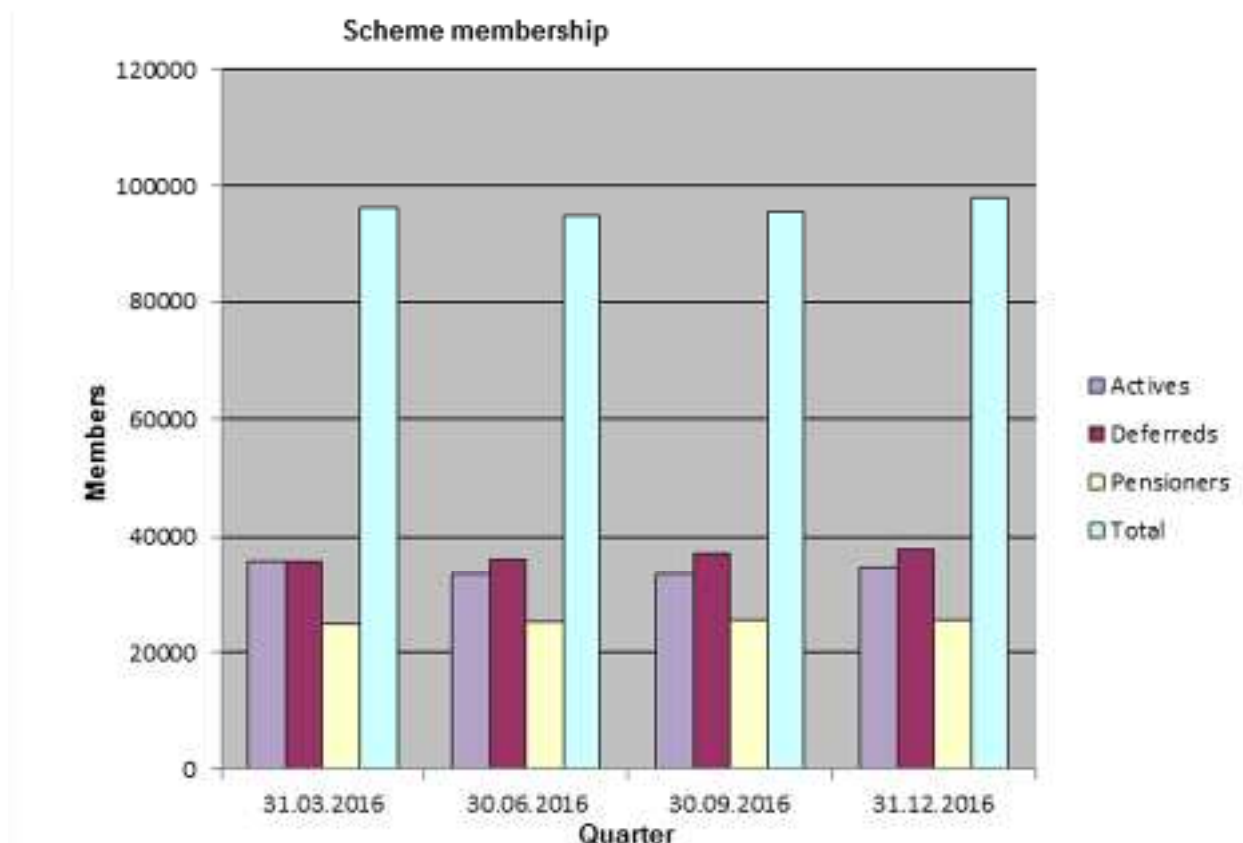
That the Board notes the contents of this report.

## 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 increased by 1528 members, pensioners have increased by 282 and deferred members have increased by 594 during Quarter 3 2016/17.

The changes in numbers of deferred members have resulted from processing year end returns for Scheme Employers where they did not notify LPP 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 4 during the last quarter. There are currently 264 active employers and a further 147 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

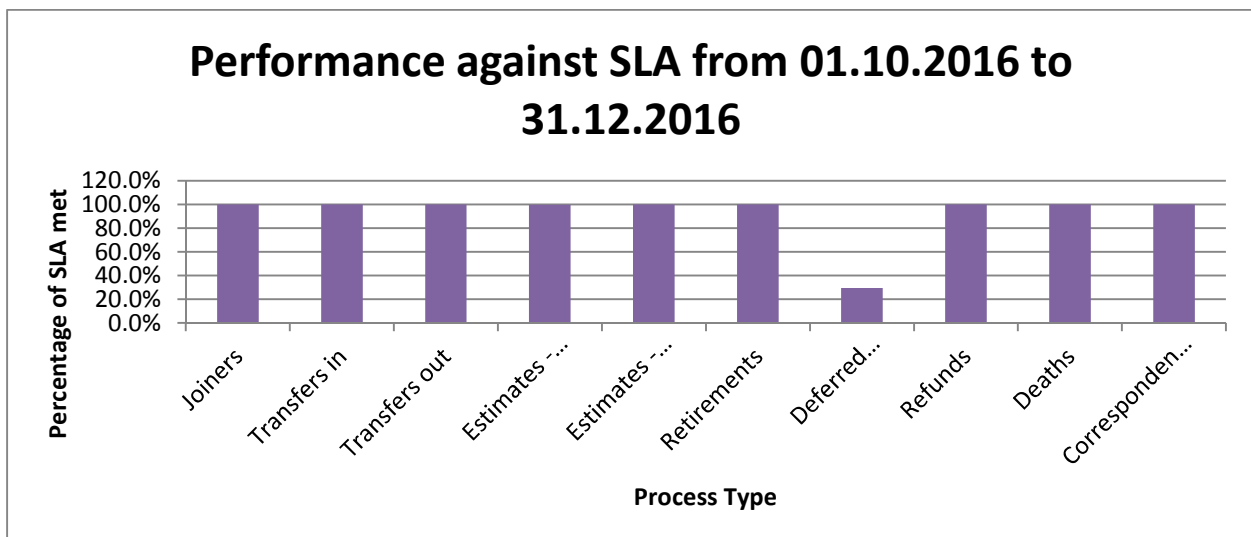
commentary on key governance and risk management issues are provided to the Pensions Committee summarising performance in the Risk and Performance Report with a detailed report provided to the Pension Board in the Governance and Risk Management Report.

### 1.3 Performance for the LPP 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<sup>st</sup> January 2016 to 30<sup>th</sup> September 2016, 7,381 Deferred Benefit (DB) cases were received. This is over 40% increase from the same period in 2015, and the reason for this increased activity is not clear, but potentially caused by employers being timelier at submitting data. The amount of new DB's will be monitored to see if this pressure is ongoing.

Currently, 640 Deferred Benefit cases are in progress, of which 529 are outside of the 20 working day SLA and 111 have future due dates as at 23<sup>rd</sup> February 2017. All of the Deferred Benefits were received in 2016 onwards. The backlog has been ring-fenced and will be worked on over the next three months to complete an additional 287 cases per month with a planned completion date of 28<sup>th</sup> February 2017.



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 deferred, joiners and refunds where additional cases have been identified through year end processing discussed in section 1.1.

<b>Key Processes Completed</b>	<b>01.01.2016 to 31.03.2016</b>	<b>01.04.2016 to 30.06.2016</b>	<b>01.07.2016 to 30.09.2016</b>	<b>01.10.2016 to 31.12.2016</b>
Joiners	1125	786	581	743
Transfers in	304	482	513	425
Transfers out	259	195	175	238
Estimates - member	597	585	527	569
Estimates - employer	208	205	99	157
Retirements	876	809	991	966
Deferred benefits	1,510	1,759	2,665	1390
Refunds	668	772	325	402
Deaths	355	261	222	206
Correspondence	1,377	9,017	1,729	1,038
<b>Total Key Processes Completed</b>	<b>7,279</b>	<b>14,871</b>	<b>7,827</b>	<b>6,134</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 6,134 cases were completed and only 2 complaints received against LPP's service.

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

**LPP Service Complaints:**

- A complaint has been received for delays in processing a leaver. This is due to the employer not submitting the leaver form and not responding to our queries. The case has been escalated and we hope to receive a response shortly. The member is also aware of the situation and has thanked us for trying to progress this case for her.
- A complaint has been received regarding the late payment of a refund of contributions. The member was in employment for less than three months which means that it is the employer's responsibility to refund pension contributions at point of leaving. LPP discussed the process with the employer who informed LPP that they were unable to pay the refund as they had closed their payroll for the year. LPP then contacted the members and followed the normal process to pay the refund directly from the fund.

### **Administering Authority Complaints:**

- A complaint was received regarding a Third Tier III Health Pension ceasing. The regulations state the Third Tier III Health Pension should cease after three years unless it has been uplifted to the Second Tier following a referral request from the member. LPP previously awaited instruction from employers to cease Third Tier III Health Pensions, which has resulted in over payments, so the process has been amended in conjunction with HCC HR to cease all Third Tier III Health Pensions after three years and inform the employer. HCC are reviewing leaver information to ensure that the member was aware that this pension would only be payable for a maximum of three years. An article will be included in the employer newsletter to ensure that employers are aware of this change.

### **Administering Authority IDRPCs:**

- A stage 1 IDRPC has been received regarding incorrect overstated pension benefits set out in an options letter to an employee that was spotted and corrected before any benefits were paid. The complaint focused on the assertion that the member had placed reliance on the figures in the letter. Other estimates and figures had been previously supplied which were correct, however those provided at the final stage – which were agreed by the member – were not, as pensions increases (PI) had been applied to the benefit calculation twice. This IDRPC was responded to in the quarter, and partially upheld, with compensation being paid to the member due to the fact that they made financial decisions based upon the incorrect information provided.

## **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 8 instances of late payments being made by employers during the period October 2016 to December 2016 out of approximately 1000 payments due, and details are provided in the attached table at Appendix A. 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 LPP 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 be issued this year by early April 2017.

### 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

- Of the 30,198 cases within scope, 1,145 were identified as requiring a review of the GMP amount and the pensions increase applied by HCC, and these have all now been looked at.
- Up to and including the March 2017 payroll, 386 records have seen a revision to the pension benefit in payment.
- The overall impact on the pensions payroll so far is reduction of £35,436 per annum.
- The total overpayment amount that we have calculated so far amounts to £281,836.
- A total of 643 records once reviewed were found to be correct in terms of the amount of pension in payment however the GMP amounts were held on Altair incorrectly. These records have been amended to show the GMP amounts correctly to minimise the risk of any future discrepancies occurring.
- 42 records are currently having the revision calculations checked with a view to them being processed for the April 2017 payroll run.
- In addition to pension revisions due to inaccurate GMP details there are an additional 74 records where an error has been identified which is not wholly related to GMP. With these cases LPP will carry out the revision work but pass these cases to HCC with an explanation of what we believe has caused the problem and a decision on whether the overpayment is written off or recovered will sit with HCC.

- **Dependant Pensions**

- The basic reconciliation output issued by HMRC provided only the details of the deceased members for whom they believed that HCC were paying a dependants pension. This made the initial matching of the HMRC data and HCC's dependants pensions very difficult as not all of HCC dependants records are linked to their originating scheme members. In an attempt to resolve this issue we requested that HMRC provide us with the details of the dependants that they believe are currently receiving a dependants pension. The information returned by HMRC contained 1,804 records, some of them being duplicates. This unfortunately fell well short of the 3,138 dependant records held on Altair at the time of running the reports for the reconciliation.
- We have already completed a manual reconciliation of the 1,804 records returned by HMRC and we are currently compiling the information needed to be returned to HMRC to raise the dependant records that are missing from HMRC's data as "Was in Scheme" queries.
- Additional work is required to review the dependant members who are on Altair but do not appear on HMRC's file. Once we have received the response to the 'Was in Scheme' query list the next stage of work to review these responses will be undertaken in phase 4 of the project.

- **"Orphan Records"**

- "Orphan Records" is the term we are using to describe the 2,953 records shown on HMRC's data that we cannot match to any individuals on Altair. The initial action that we have taken with all of these records was to request further details from HMRC (such as dates of birth) to help match records to Altair particularly where there may be a discrepancy in the national insurance number.
- Having received the additional information from HMRC we reviewed the records again and there are still 1,760 "Orphan Records" remaining.
- The next step will be to check whether any of these remaining records appear on HCC's payroll system to determine whether they should be an LGPS scheme member or if they fall under a different scheme, such as the Teachers' Pension Scheme.





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

### **1. GMP for member reaching state pension age after December 2018**

Guaranteed Minimum Pension and the relationship with the state pension has been amended several times during most scheme member's employment, and the introduction of the new state pension and the end of contracted out National Insurance required the Government to make a short term change to the arrangements for members who reached state pension age between April 2016 and December 2018 whereby the LGPS picks up the full indexation. At the time the Government stated that it would investigate further options by December 2018. In addition there is an outstanding issue relating to equalization between men and women based on the different state pension age and the difference that makes to their LGPS pension.

In November 2016 the Government launched a consultation on the three options it was considering for the long term treatment of GMP's held in the public sector regarding indexation and equalisation. The Pension Board will be updated on the outcomes of this consultation which closed on 20<sup>th</sup> February 2017. Whichever option is selected it is essential that each fund is aware of genuine GMP liabilities, and dates of membership, transfers out and refunded service will be critical.

### **2. Recent court ruling**

Following the recent Supreme Court hearing which stated that the Northern Ireland fund did not need to hold a nomination form to award a partners pension, the LGA have provided the following update.

Treasury have informed us that they are awaiting advice on the terms of the judgement – the Government line is therefore that they are considering the implications of the judgment, if any, for public service schemes.

The LGPS 2014 regulations removed the need for cohabiting partners to have to make a nomination and the Transitional Regulations 2014 – 17(9)(b) also removed the nomination requirement for members of the 2008 scheme who died on and after 1 April 2014. So the ruling will only impact on deaths between 1 April 2008 and 31 March 2014 where no partner's pension was paid. LPP will work with HCC to assess the implications of the judgement for the LGPS, and this is initially likely to involve identifying cases where it is known that a cohabiting partner did not receive payments because of the lack of a valid nomination in line with regulations in force at the time.

We received a small number of phone calls immediately after the court ruling and once we have advice from the Government/DCLG we will assess the potential impact and next steps.

### **3. Late Retirement Factors**

The reduced late retirement factors referred to in the last update have been introduced, this provoked a small number of complaints due to the short notice which did not allow such members to hand in resignations and have benefits paid on previous terms, these letters have been referred on to DCLG to see if any flexibility can be allowed.

#### **4. Exit Payments**

Progress continues to be slow on the introduction of these changes:

##### **Exit payment cap**

On 24th January, HM Treasury issued SI2017/70, the Enterprise Act 2016 (Commencement No. 2) Regulations 2017, effective from 1st February 2017.

The regulations commence certain parts of the Enterprise Act 2016 including changes to the Small Business, Enterprise and Employment Act 2015, which enable the £95k exit payment cap to be introduced. However, the commencement order does not itself bring the exit payment cap into effect, but merely allows the Government to make regulations providing for the introduction of the cap.

The LGPC Secretariat remains of the understanding that HM Treasury plan to undertake a further consultation on draft regulations covering the cap before this becomes effective.

##### **Exit payment recovery**

No further update has been received but we understand this is still expected, no time has been suggested