

APPENDIX B



LPP's New Operating Model for the Administration Business

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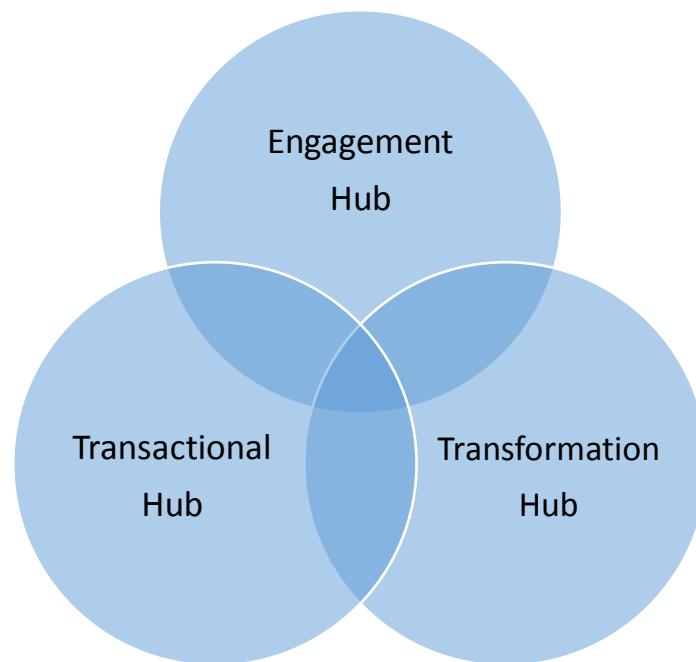
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Introduction

The creation of LPP brings together three administration operations based in Hertford, London and Preston into a single business. This provides the opportunity to create a single business operating to common standards in order to improve the overall quality of the service delivered for clients and scheme members.

The Concept

The key concept within the operating model that we are moving towards is a series of three hubs each of which will deliver key aspects of the business. These are illustrated in the diagram below:



Dealing with each of these in turn:

1. The Engagement Hub will manage the process of communication with scheme members and employers including managing front end communication through a telephone contact centre and websites etc.
2. The Transactional Hub will handle the processing and maintenance of data, benefit calculations and payments.
3. The Transformation Hub will deal with designing improvement to the way in which we deliver our services, the development of new products and the take on of new business.

This is fundamentally different from having three operational centres that each carry out the full range of pension administration functions.

By bringing functions together across the business in this way and as far as practical concentrating activity in lower cost places we can achieve economies of scale.

We can achieve further improvements in productivity through adopting a number of further changes to the way in which we do things as part of this new operating model. All of these will form part of LPP's standard offering in future.

- By structuring our processing teams around the complexity of the transactions they deal with we can improve productivity by each team becoming expert in a specific range of transactions.
- By routing all scheme member calls through the contact centre we can handle calls in a more consistent and systematic way as well as improving back office productivity through the fact that staff will not be diverted from processing activity by phone calls.
- We can free up time for processing by promoting and encouraging use of the member (and employer) self-service facilities we already have and by working with our software suppliers to improve them.
- We can improve the quality of scheme data and reduce the year end peak by gathering data from employers and inputting it into the pension administration system on a monthly basis.
- We can assist schemes in promoting membership, promoting take up of self service and in helping members understand their benefits and also whether they might need to take action in relation to annual or life time allowances. .
- Straight through processing of payroll and other payment transactions such as lump sums and transfers (where the payroll service is handled by LPP).
- Supporting annual "practitioner conferences" to engage employer HR and payroll staff with developments in pensions and particular schemes.
- Regular reviews of compliance with CoP 14 and data quality.

Some clients will already receive some of these as part of their current service. The difference is that they will become standard for all as part of three service packages which schemes can choose to participate in:

1. Core Administration
2. Pension Payroll and Other Scheme Payments
3. Member and Employer Engagement

Implementing the Changes

LPP's aim is to have this new operating model in place by April 2018, or shortly thereafter depending upon the delivery of a range of ICT changes, in particular relating to workflow technology. This will result in us relocating processing activity away from London to Preston, while maintaining the level of activity in Hertford at broadly the same level. A limited amount of processing activity will continue in London and this together with other London based activity will be relocated to a less expensive location in London. This will be a move over time, rather than at a fixed point, in order to manage the staffing consequences of change appropriately.

As further schemes are added to the LPP portfolio decisions will be taken as to where to locate the relevant activity in line with the requirements of the relevant scheme and in a way which allows economies of scale to be maximised.

Impact on Individual Schemes

The impact of these changes on individual scheme will differ depending on the commercial terms between each scheme and LPP's predecessor organisations. LPP's aim is, through a series of individual discussions from 1st April 2018 to:

1. Move all current schemes to a standard form of shared service agreement
2. Move all service arrangements to the new operating model and standard form of service.

3. Introduce a standard form of reporting back to individual schemes and for the managing of the relationship between LPP and individual schemes.

As we are looking to operate as a shared service we will be aiming to discuss with schemes a means of them influencing how the service develops over time.

Further Information

If you would like further information or to arrange a discussion on the potential implications of these changes for your scheme please contact:

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