HAMPSHIRE COUNTY COUNCIL

Decision Report

Panel:	Pension Fund
Date:	7 June 2013
Title:	Pensions administration performance update
Reference:	4931
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1. Summary

1.1. The purpose of this paper is to update the Panel on administrative performance in 2012/13, and highlight key changes in the coming year.

2. Administration performance

2.1. Pensions Services provide the administration of pension entitlements for members of the Hampshire Pension Fund, as well as for members of the Police Pension Schemes and Firefighter's Pension Schemes.

2.2. Pension scheme regulations set out the requirements for providing members with information about their pension benefits. For most types of calculation or correspondence, the statutory service standard is 8 weeks.

2.3. Pensions Services' administration performance against statutory deadlines for key casework is measured each month. Due to their greater time sensitivity, retirements and estimates have always been given priority, and are measured against a service standard of 4 weeks.

2.4. For deferred benefits and notional transfers (changes of employer within the Hampshire Pension Fund), the service standard is 8 weeks because these cases are less time sensitive.

2.5. The processing times for casework in the last two quarters of 2012 / 13 is shown in the tables below.

Quarter 3 – completed work and time taken to process

Area of work	0-5d 1 Week	6-10d 2 Weeks	11-15d 3 Weeks	16-20d 4 Weeks	21-40d 5 - 8 weeks	41+d 8 weeks+	Total number of	% comp on time
Retirements	608	39	2	0	0	0	649	100%
Estimates	319	14	0	1	0	0	334	100%
Deferreds	548	556	406	140	18	0	1668	100%
Notionals	203	82	22	6	1	0	314	100%
Interfunds	233	1	0	0	1	0	235	100%
Transfers	363	7	4	0	0	0	374	100%
Divorce	87	2	0	0	0	0	89	100%
Other leavers	20	0	0	0	0	0	20	100%
Pension Payroll starters	369	41	37	14	27	13	501	92%
Total	2750	742	471	161	47	13	4184	

Quarter 4 – completed work and time taken to process

Area of work	0-5d 1 Week	6-10d 2 Weeks	11-15d 3 Weeks	16-20d 4 Weeks	21-40d 5 - 8 weeks	41+d 8 weeks+	Total number of	% comp on time
Retirements	542	54	8	0	0	0	604	100%
Estimates	439	27	1	0	0	0	467	100%
Deferreds	372	418	295	128	47	0	1260	100%
Notionals	122	58	30	3	2	0	215	100%
Interfunds	150	0	0	0	0	0	150	100%
Transfers	309	4	0	0	0	0	313	100%
Divorce	83	0	0	1	0	0	84	100%
Other leavers	15	1	0	0	0	0	16	100%
Pension Payroll starters	488	91	28	47	0	0	654	100%
Total	2520	653	362	179	49	0	3763	

2.6. Performance monitoring for pension payroll starters has historically been less reliable than for other processes as the payroll was run on a separate system to the main administration system, and workflow tasks are not always closed down immediately on completion of the work. During the year, the pensioner payrolls were migrated onto a integrated payroll module. This has allowed service standards to be met for all key processes.

2.7. Work in progress at the end of each month is also measured by age and processed in date order to ensure achievement of service standards. The table below shows the analysis of outstanding work for the key processes at the end of March.

Area of work	0-5d 1 Week	6-10d 2 Weeks	11-20d 3 - 4 Weeks	21-40d 5 - 8 Weeks	41+d 8 weeks+	Total number of
Retirements	33	1	0	0	0	34
Estimates	11	4	0	0	0	15
Deferreds	85	25	62	0	0	172
Notionals	2	1	0	0	0	3
Interfunds	0	0	0	0	0	0
Transfers	6	1	0	0	0	7
Divorce	0	0	0	0	0	0
Other leavers	0	0	0	0	0	0
Pension Payroll starters	4	4	0	0	0	8
Total	141	36	62	0	0	239

2.8. Total work in progress casework at the end of the year represents just over one week's work.

3. Administration costs

3.1. In 2008, the Panel approved a five year resourcing plan to enable improvements in pensions administration and ensure delivery to statutory deadlines. The estimated impact of the plan on the cost per member was as shown in the table below.

	2009/10	2010/11	2011/12	2012/13	2013/14
LGPS cost per member (2008 prices)	£15.24	£18.38	£18.63	£18.67	£17.39
LGPS cost per member (adjusted for CPI)	£16.89	£20.37	£20.65	£20.69	£19.27

3.2. The actual cost per member for 2012/13 was £17.81, below the projected figure approved by the Panel, due to some staff posts not being filled.

3.3. Good practice suggests that total administration costs should be around 0.3% of the total employer payroll for the Fund. The 2010 valuation data gives the figure of £877m for the Hampshire Pension Fund, resulting in a suggested administration cost of £2.63m (£20.19 per member).

3.4. Nationally, benchmarking data is only available for 2010/11, where the average LGPS administration cost for English shires was £25.66 (£30.18 for all authorities).

4. Customer service excellence

4.1. Pensions Services have held Customer Service Excellence, the government standard for excellence in customer service, since April 2009. In April 2013, Pensions Services underwent an annual review in which the Assessor considered progress against 57 criteria. Pensions Services now achieve full compliance in all areas, and have been awarded a compliance plus for the commitment to customer excellence.

4.2. In the review report, Pensions Services were praised for front line service delivery, which continues to improve and enjoy high levels of customer satisfaction. Amongst many other achievements, the Assessor reported:

- ongoing process improvements
- an embedded customer focussed ethos
- setting and meeting a challenging set of targets and standards.

The full report is attached in Appendix 1.

5. Pensioner payroll

5.1. Up until April 2012, pensioners were paid on a separate payroll system. This meant that pension benefits were calculated through the main administration system and then separately input into the payroll system. This resulted in duplication of effort as records were maintained in both systems and manual workarounds (because the payroll system does not calculate pension entitlements for example on the death of a pensioner).

5.2. Since 6 April 2012, new pensioners have been set up on an integrated payroll module which is part of the main pension administration system. During the year, all pensioner records have been migrated across from the separate system onto the integrated payroll system.

5.3. Use of the integrated payroll module allows streamlining of processes across Pensions Services as data is only held in one system. It also allows the full use of the workflow and electronic document management systems for pensioner records.

6. Equitable Life

6.1. The Equitable Life Payment Scheme was set up by Government to make fair and transparent payments to Equitable Life policyholders who suffered financial losses as a result of maladministration that was found to have occurred in the regulation of Equitable Life.

6.2. Her Majesty's Treasury asked National Savings & Investment (NSI) to administer the 'Equitable Life Payment Scheme' (ELPS) on its behalf.

6.3. As reported to the Panel in 2011, Pensions Services were expecting to be contacted about compensation payments for some Equitable Life 'with profits' policy holders by June 2012, as the Government announced all payments would be made by June 2014.

6.4. NSI have engaged a third party contractor, Atos, to work with them on tracing eligible scheme members. Pensions Services provided Atos with the required data and it is anticipated that payments will be made to those people that can be easily traced by mid June 2013.

7. New LGPS 2014

7.1. As previously reported to the Panel, the main features of the 2014 regulations, agreed in principle in the summer 2012 have been carried forward into draft legislation. The key features are listed in appendix 2.

7.2. A second consultation on the new 2014 LGPS was issued at the end of March. This was a two part consultation. The first part requested technical responses to amendments made following the end of the first consultation in February. Local Government Employers (LGE) issued a full response, including five separate appendices regarding how some specific issues will work in the new scheme (the 85 year rule, aggregation of different employments in the LGPS and wider public sector, revaluation of CARE benefits, assessment of contributions in the new scheme and certificates of protection following reductions in pay).

7.3. The second part of the consultation covers the newly issued transitional regulations (which detail how existing entitlements will be moved into the new scheme). There are also some proposed changes to the current regulations regarding automatic enrolment of casual workers.

7.4. The Government is expecting to issue a third consultation on draft regulations to cover administration and governance later in the year. The introduction of the Public Service Pensions Act 2013 brings with it changes to the framework for scheme governance.

7.5. A major change in scheme governance is the introduction of a Scheme Advisory Board for the LGPS which will have responsibility for providing advice to the Responsible Authority (DCLG) and Local Pension Boards. Ministers have agreed to the establishment of a Shadow Scheme Advisory Board as well as five sub-committees for the LGPS to inform and test the process of operation prior to the Board's statutory formation in 2014. A working group was formed in order to make recommendations on the remit and membership of the Shadow Board.

7.6. The LGA has issued two papers giving more details on the proposals which are attached in Appendix 3.

7.7. Although progress towards a full set of regulations for the new LGPS is being made, there is still not sufficient information to be able to start planning detailed communications to members and employers. The Hampshire Pension Fund website points members to the main 2014 LGPS website which is being externally hosted for all LGPS members.

7.8. The LGE communications working group is developing other communication tools for authorities to use to help members and employers. It is anticipated that full use will be made of these resources when they become available.

8. Further LGPS reform

8.1. The Local Government Minister has announced another consultation to be issued later in the year. This will cover structural reform of the LGPS, including the possibility of merging funds. The Minister says that he has spoken to many people associated with the LGPS and most agree that reductions are needed in the costs of administering funds and in the fees paid to fund managers.

8.2. The consultation will cover broad principles for change and is cited as the opportunity for funds to tell Government what reforms will help improve investment performance and reduce fund management costs.

8.3. The Minister also announced that his officials will start discussions with scheme stakeholders regarding the format and content of an annual scheme report to sit alongside individual fund reports. This report will allow comparison of individual fund performance on a level playing field, comparing on the basis of a wide range of factors (including discount rate, investment returns, cash flow, recovery periods and the funding strategy statement) rather than just on funding levels alone.

8.4. The full text of the Minister's announcement is attached in Appendix 4.

9. Recommendations

9.1. It is recommended that:

- the Panel note the administration performance for 2012/13.

CORPORATE OR LEGAL INFORMATION:

Links to the Corporate Strategy

Hampshire safer and more secure for all:	yes/no
Corporate Improvement plan link number (if appropriate):	
Maximising well-being:	yes/no
Corporate Improvement plan link number (if appropriate):	
Enhancing our quality of place:	yes/no
Corporate Improvement plan link number (if appropriate):	

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

Document	Location
None	

IMPACT ASSESSMENTS:

10. Equalities Impact Assessment:

10.1. Equality objectives are not considered to be adversely affected by the proposals in this report.

11. Impact on Crime and Disorder:

11.1. The proposals in this report are not considered to have any direct impact on the prevention of crime.

12. Climate Change:

a) How does what is being proposed impact on our carbon footprint / energy consumption?

No specific impact

b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

No specific impact

App 2 - **Elements of 2014 LGPS new scheme included in the first consultation**

- A start date for the reformed LGPS of April 2014 with core elements of the new scheme regulations in place by Spring 2013.
- A pension scheme design based on career average and actual pay with an accrual rate of 1/49th of pensionable earnings each year.
- Revaluation of active members' benefits to be in line with a price index (currently Consumer Prices Index).
- Scheme normal pension age to be equal to the state pension age for both active members and deferred members (new scheme service only). If a member's state pension age rises, then normal pension age will do so too for all post-2014 service.
- The earliest point at which retirement benefits can be taken is age 55. The latest point at which retirement benefits can be commenced is on reaching age 75. In cases of both "early" and "late" commencement of pension the appropriate actuarial reduction or increase will be made – except that there is no reduction in cases of redundancy or where employers exercise their waiver.
- There continues to be a provision for flexible retirement from age 55 onward.
- Ill-health retirement pensions to be based on the current ill-health retirement arrangements.
- Optional lump sum commutation at a rate of £12 of lump sum for every £1 of annual pension given up.
- Pensions in payment and deferred benefits to increase in line with a price index (currently Consumer Prices Index).
- An average member contribution yield of 6.5%, as now, with tiered contributions. Higher – earners paying a higher proportion of their earnings in contributions than lower-earning colleagues.
- A low cost option - allowing member's to pay 50% contributions building up 50% of main benefits.
- A vesting period of two years (currently 3 months).
- Spouse and partner pensions to continue to be based on an accrual rate of 1/160 and three times death in service benefit.

App 4 - **Speech by Local Government Minister Brandon Lewis on the local government pension scheme. Originally given at Cotswold Water Park Four Pillars Hotel.**

This is a transcript of the speech, exactly as it was delivered.

Introduction

Thank you very much Joanne [Segars, Chief Executive, NAPF] for that kind introduction and for inviting me to open the conference.

You asked me to speak about the new local government pension scheme (LGPS) that we will be introducing next April and I will of course do so. These reforms will reduce the cost of the LGPS to employers and taxpayers. But we also need to think more fundamentally about the way the LGPS is structured. The LGPS has an enviable record on scheme administration and many of you can be proud of what you are achieving. Nevertheless, the scheme has changed little since 1974. Is it still fit for purpose and can it deliver value for money for scheme members, employers and taxpayers?

LGPS reform

Six months ago I spoke at your local authority forum and set out the case for reform and our programme for bringing forward the new LGPS in April 2014. Much has happened since then. In December, we launched the first consultation on the main elements of the new scheme. Almost 150 responses were received which we took on board in a second consultation at the end of March. We received about 30 responses, which suggests to me that we got things pretty much spot on first time around.

The journey from a final salary defined benefit scheme to a new career average scheme, with all the required protections under the Public Service Pensions Act, was never going to be an easy one. There is still a great deal of work to do, including another consultation very shortly on draft administration and governance regulations. But despite the complexities and challenging timetable, we remain on track to deliver the key elements of the new scheme on time.

A great number of you in the audience will have helped to get us where we are today. We are in a good place because of your help and co-operation and I know that I can rely on you all to ensure that the new scheme is a success from the start.

Efficiency and cost effectiveness

Introducing the new scheme is a clear priority for us all, but since becoming Local Government Minister, I have also been clear that looking at other ways of achieving better value for money for taxpayers is equally, if not more important. After all, you are responsible for vast sums of money. You spend about £8 billion a year on pension benefits, while fund management and scheme administration costs alone are almost £500 million a year.

There are plenty of examples where local pension funds are already working together to share services, to establish local or national call-off contracts and in some cases, to pool pension fund assets. This is all good news, but I am equally aware that there are just as many authorities that are sitting on the sidelines waiting to be told what to do.

Many people associated with the LGPS, including a fair few in the audience today, have been to see me with their ideas. Most of them have said that if there are to be fewer funds, theirs should remain because it's the best.

All of them have raised some important points. For example, most agree that we need to see the costs of administering funds and the fees paid to fund managers reduced. To achieve this, we need a better understanding of the factors driving these costs. In particular, I want to understand why the administration and fund management costs of similar fund authorities can vary so markedly.

Data

We need better data to help answer the question about what makes a good, strongly performing fund. It is all too simple to look at funding levels and on that basis, say that fund x is better than fund y. But I think we all know that the position is far more complex than that. Funding levels alone do not determine performance.

We need a more sophisticated model that takes account of other factors such as discount rate, investment returns, cash flow, recovery periods and perhaps, most importantly, the funding strategy statement and statement of investment principles adopted by individual funds. Only then will we be able to compare the performance of individual funds on a level playing field.

A common complaint I hear is that there is no single LGPS annual report. This is something we must address. Pension fund authorities are already required to publish their own pension fund reports and I have no wish to change that arrangement. But academics, trades unions and others tell me they are fed up with having to obtain and then collate 89 different reports to end up with the national picture. I have therefore asked my officials to open discussions with scheme stakeholders to agree the format and content of an annual scheme report to sit alongside individual fund reports.

Investments

The scheme is becoming increasingly mature and it is no secret that some funds are close to becoming cash-negative. We therefore need to see even better and more consistent returns on the £150 billion worth of investments in the scheme.

I therefore want to undertake a root and branch review of the LGPS investment regulations. Some have suggested that the funds should be better directed to support growth, particularly local growth. We have already taken steps to allow fund authorities to increase their exposure to limited liability partnerships, but I accept that we may need to go further.

In particular, I want to know if there are any other obstacles in the regulations that prevent you from maximizing your returns. I am not suggesting that we should dispense altogether with the requirement for you to assess the risks associated with your investments. After all, this is taxpayers' money you are investing and we must continue to get the right balance between risk and reward.

Funding deficits

My other priority is to tackle the equally important issue of fund deficits. We can't bury our heads in the sand and just keep pushing these significant costs on to future generations of employers and taxpayers.

I want to develop a clear strategy that will both address the historical deficits that have built up over past decades and ensure that future funding levels remain at a level which are fair and affordable. I don't underestimate the challenge I have set myself but this is not a problem I can choose to ignore. With your help, I want to find a better way to manage deficits. For example, is their a case for moving away from the concept of long term solvency as a funding target and moving towards a model that looks at cash flows and a fund's capacity to meet pension payments over the short and medium terms?

Fund mergers

I now want to say something about fund mergers. There is probably no other issue on the LGPS radar that attracts such diverse and forthright views. I recognise the tensions out there, and no doubt in the room today, but I am clear that we must explore every option that might give employers and taxpayers a better deal.

Opinion is clearly divided on the issue of whether "big is better", but for me, the real question is whether "small is worse". There is compelling evidence from around the world to suggest that the scheme could benefit from a smaller number of optimal funds. But some of you contend that small funds can perform on a par with larger ones. Both sides are equally convinced of their case.

Local Government Association/Department for Communities and Local Government roundtable

All of these issues were raised at a very useful roundtable meeting at the department last week, and I am grateful to the LGA for making that happen.

I was unable to stay for the whole meeting, but I am reliably informed that the discussion was lively and wide-ranging. I expected no less. Among the many different views expressed by trade unionists, academics, politicians and practitioners, a number of common themes emerged.

There was clear agreement that doing nothing was not an option. We can and will put in place a new regulatory framework for April 2014, but this needs to work within a structure that is efficient, cost effective and offers the best value for money. Concerns were raised about the pace of any change and I respect that view. Having the new scheme in place by April next year has to be our number one priority, but at the same time, we cannot afford to just keep talking about structural reform. We need clear objectives and a clear strategy to achieve change.

I was also pleased to learn that a clear consensus had emerged on the need for more focused and better scheme data. Different parties had different ideas about what those needs are, and various attendees said that they would be prepared to lend their experience and expertise in helping to develop a new dataset that better meets today's needs. I see this as an essential first step in the process to reform the structure of the LGPS.

The point was also made that we need to find a better way of managing pension liabilities to ensure that all future pension payments can be met. It was suggested that a few funds are already cash negative and eating into their assets in order to pay pensions. I think we can all agree that this is not making the best use of fund assets.

It is perhaps no surprise that the issue of fund mergers loomed large in the discussion. The arguments for and against fund mergers were, as ever, well made.

The way forward

So what is the way forward? What is clear to me is that things need to change. We need more transparency, better data, fewer unnecessary overheads and stronger, more consistent investment performance.

What we do not have at this point is agreement on the best way of achieving these goals.

But I am determined that we make progress and make it as quickly as reasonably possible. I can therefore announce this morning, that we will consult later in the year on a number of broad principles for change. This will be your opportunity to tell us what reforms could be made to both help improve your investment performance and reduce your fund management costs.

The consultation will not set out some pre-determined solution to what is undoubtedly a complex and contentious issue. I am neither ruling anything in nor ruling anything out at this stage. However, the clear message from me this morning is that I am not wedded to the existing number of 89 funds in England and Wales. If it takes a smaller number of funds to improve the efficiency and cost-effectiveness of the scheme, I shall not shy away from pursuing that goal.

I have talked a fair amount about the need for robust data to inform decisions. I am therefore working with the LGA and others to launch a call for evidence, which will both inform our consultation and help all involved formulate their views in response to the consultation.

You will be aware that work is well underway to establish a shadow national pensions board for the LGPS. I have met with the LGA and local government trades unions on several occasions to discuss the sort of work that I would like the board to undertake.

I hope I have left them in no doubt that I see work on structural reform of the LGPS, as well as pension liabilities and fund deficits, being one of their first priorities. I have also impressed on them the need for the shadow board to work alongside other representative groups, all of whom must have a say in how we take forward this key element of the reform process.

There is of course the temptation to put all of this to one side and put all our efforts into getting the new scheme in place for April. I appreciate the valuable contribution you are all making to that end, but I believe that I must press forward.

I want good scheme regulations working within a reformed structure that is cost effective and affordable to those who pay the scheme's costs. I am open to the idea that change itself may have to wait until after the new scheme has been introduced, but I am determined to get you thinking now about what changes we need and how they can be achieved.

Conclusion

By the time we meet again next year, the new LGPS scheme will be up and running. On the equally important matter of structural reform, I fully anticipate that we will have a clear way forward to which we are all committed.