

## **Report to Pensions Committee**

**21 July 2021**

### **Pension Administration**

#### **Report by Director of Finance and Support Services**

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##### **Summary**

At 30 June 2021 the Scheme had 81,255 members, an increase of 1.8% since 31 March 2021.

Pension Administration services have been provided by Hampshire County Council since 4 March 2019. 100% compliance with the key performance indicators has continued.

The Data Improvement Plan was closed with effect from 31 March 2021. The remaining historic leaver forms continue to be worked on and tracked each month. It is envisaged that this will be complete by 31 October 2021.

In terms of key projects with the team, as at 30 June 2021,

- all active employers (207) had returned their annual return. The receipt of this information from employers is a critical milestone in the production of the Annual Benefit Statements.
- 98.7% of deferred annual benefit statements had been produced. Active annual benefit statements will be produced by the team through July and August in compliance with the statutory deadline of 31 August.
- As at 31 May 2021, 150 of 212 data sets had been received to assist the team in completing updating membership records following the McCloud judgement.

##### **Recommendations**

- (1) The update is noted with particular attention to the work associated with end of year returns and the publication of Annual Benefit Statements to members.
  - (2) To note the approach agreed by the Director of Finance and Support Services in relation to receipt of a Voluntary Scheme Pays election.
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## Proposal

### 1 Background and context

- 1.1 Hampshire County Council provides the Pension Administration Service for West Sussex County Council. The administration team are based in Winchester and the County Council work closely with Hampshire County Council.
- 1.2 The Pensions Committee has a key objective within its Business Plan to build on the improvement journey in relation to the administration and deliver a high-quality administration service to all stakeholders with processes and procedures to ensure that the Fund receives all income due and payments are made to the right people at the right time, clear communication and robust accounting and reports.
- 1.3 At 30 June 2021 the Scheme had 81,255 members as analysed below.

	<b>31/03</b>	<b>30/06</b>	<b>Movement</b>
<b>Active</b>	26,574	26,118	-1.7% (456)
<b>Deferred</b>	31,958	32,710	+2.3% (752)
<b>Pensioner</b>	22,274	22,427	+0.7% (153)
<b>Total</b>	<b>80,806</b>	<b>81,255</b>	<b>+1.8% (449)</b>

### 2 Administration Performance – Business as Usual Activity

- 2.1 Case work An Administration Strategy sets out performance expectations for employers and the Administering Authority. The current Authority's performance against service standards for key processes are summarised below and shown in detail in Appendix A. With some exceptions the expectation is that most cases work is completed within 15 working days of receipt of accurate details.

<b>Case Type</b>	<b>Quarter Total Cases</b>	<b>Quarter Completed on Time (%)</b>	<b>12 Month Total Cases</b>	<b>12 Month Completed on Time (%)</b>
<b>Active Retirement</b>	101	100%	495	100%
<b>Deferred Retirement</b>	150	100%	619	100%
<b>Estimates</b>	483	100%	1,169	100%
<b>Deferred Benefits</b>	685	100%	3,065	100%
<b>Transfers In/Out</b>	36	100%	130	100%
<b>Divorce</b>	36	100%	157	100%
<b>Refunds</b>	104	100%	481	100%
<b>Rejoiners</b>	65	100%	291	100%
<b>Interfunds</b>	71	100%	268	100%
<b>Death Benefits</b>	101	100%	511	100%
<b>Total</b>	<b>1,832</b>		<b>7,112</b>	

- 2.2 For the last 12 months, the Pensions Team have been performing at 100% in all areas.
- 2.3 The main Data Improvement Plan was closed with effect from 31 March 2021 following work on issues identified through work undertaken by the team

following transfer. The remaining historic leaver forms continue to be worked on and tracked each month. It is envisaged that this will be complete by 31 October 2021.

#### Contribution Receipt

- 2.4 All LGPS Contributions are expected to be received by the Fund on the 22<sup>nd</sup> of each month. The majority of employers have adhered to this requirement and a clear escalation procedure has been followed where an employer has consistently made late payment. The contribution monitor is available at Appendix B.

#### Promotion of Portal

- 2.5 LGPS members can register for a pensions account on the member portal so that they can see their annual benefit statements online, as well as access and update their personal details. Pensioner members can view their payslips and P60s. It is now mandatory for an employer to provide an email address for all new joiners as part of the new starter notification process. The member portal is also promoted in all deferred and retirement letters and was promoted as part of the Annual Benefit Statement process.
- 2.6 Since 31 March 2021 there has been a 4% increase in registrations. Registrations at 30 April 2021 have been tabulated below:

	<b>Number</b>	<b>% of population</b>
<b>Active</b>	13,735	51.63%
<b>Deferred</b>	6,983	21.55%
<b>Pensioner</b>	2,848	12.74%
<b>Total</b>	<b>22,696</b>	<b>28.96%</b>

### **3 Administration Performance – Project Work**

#### End of Year Returns

- 3.1 As at 30 June 2021, all employers (207) had returned their annual return. Of these 206 annual returns have been reconciled and uploaded to the system resulting in data queries generated for 74 employers. The receipt of this information from employers is a critical milestone in the production of the Annual Benefit Statements.

#### Annual Benefit Statements

- 3.2 As at 31 May 2021, 98.6% (31,538 out of 31,966) of deferred annual benefit statements have been produced. The statutory deadline is 31 August and the team will continue to work on the outstanding deferred statements.
- 3.3 Active annual benefits are being published over July and August. As with deferred statements, the statutory deadline is 31 August.

## McCloud Data Collection

- 3.4 Employers are statutorily required to provide extra data (hours worked and service breaks) for all members in the Scheme between April 2014 up to 31 March 2022 to allow the team to apply legislative changes to member benefits extending the underpin benefits to eligible younger members.
- 3.5 As at 31 May 2021, 150 of 212 data sets had been received to assist the team in completing updating membership records following the McCloud judgement. The team are in contact with those employees who have outstanding data sets, to understand if there is any reason for the delay and encourage them to return the information requested as soon as possible.

## **4 Complaints**

- 4.1 Hampshire Pension Services report complaints received on a monthly basis. This allows officers to consider lessons learnt and any service improvements to be implemented.
- 4.2 The table below sets out the number and themes of complaints received within the quarter and the last twelve months (1 July 2020 to 30 June 2021).

<b>Theme</b>	<b>No. Complaints (Quarter)</b>	<b>No. Complaint (12 months)</b>
<b>Response Times</b>	1	2
<b>Error in Pension Figures</b>	1	2
<b>Delay in retirement benefits</b>	1	1
<b>Unhappy with wording on Member Portal</b>		1
<b>Loss of Investment with AVC, following a transfer into the Scheme from another Local Authority</b>		1
<b>Unhappy with cheque payment being stopped</b>	1	1
<b>Discrepancy between Member portal estimated figures and estimate received</b>		1
<b>Delay in set up of UPM record</b>		1
<b>Enrolment Complaint (Employer)</b>	1	1

## **5 Breach Reporting**

- 5.1 There are several regulatory requirements within the Local Government Pension Scheme (LGPS) for which there is a statutory duty to report to the Pensions Regulator if a material breach occurs.
- 5.2 Since the Committee met in March there has been two low risk data breaches reported, which have been logged through the County Council's IT Security Incident Report. The breaches were caused by a member's payslip being incorrectly included within the envelope of another member. The causes of the incidences have been investigated. The move to electronic payslips reduces the risk associated with bulk mailings going forwards.

## **6 Administering Authority Discretions – Addition**

## Voluntary Scheme Pays

- 6.1 The Annual Allowance is the amount by which the value of a members' pension benefits (including pension savings outside the LGPS) may increase in any one year without them having to pay a tax charge. The value has been set at £40,000 per annum. Most members will not be affected by the Annual Allowance tax charge but if a member receives a significant pay increase each year or is a higher earner they may be impacted. The Fund has a statutory duty to write to scheme members who breach the annual allowance (solely because of pension savings within the Fund) by 6 October each and every year (a Pensions Saving Statement) and anyone who has exceeded the Annual Allowance is required to report this to HMRC by completing a self-assessment tax return.
- 6.2 If a member incurs a tax liability for exceeding their annual allowance, they are normally required to pay their tax charges directly to HMRC but they can request that their annual allowance charge is met by the pension scheme (the "Scheme Pays"). Under the Scheme Pays method, the Fund will pay the tax charge directly to HMRC and will reduce the member's future pension benefits to account for this payment. This can be accessed via two routes:
- i. **Mandatory Scheme Pays:** This is available to most active members where a member's annual allowance charge in a tax year exceeds £2,000. If a member makes an election to use Mandatory Scheme Pays the Fund has no discretion to refuse provided that the election is made by HMRC's deadline. The Fund then becomes jointly liable for the charge and must pay the tax due. Members benefits are then reduced to reflect the payment.
  - ii. **Voluntary Scheme Pays:** There are some limited circumstances where the member does not have the right to make a 'Mandatory Scheme Pays' election. In these circumstances the Fund has a discretion to pay a scheme member's annual allowance tax charge on a voluntary basis with a corresponding reduction to the member's benefits. There is no statutory requirement for an Administering Authority to agree to Voluntary Scheme Pays requests and they do not become jointly liable for the charge. This means that the liability for the annual allowance charge would remain with the member.
- 6.3 To ensure that it is clear to members when the Fund may consider a request for Voluntary Scheme Pays, the Director of Finance and Support Services has agreed the following approach to the matter, which will be added to the Administering Authority's Discretions Policy.

*The Director of Finance and Support Services will consider a request for Voluntary Scheme Pays where **each** of the conditions below are met:*

- *the member is subject to the tapered annual allowance*
- *the member exceeds the standard annual allowance*
- *a member is not able to utilise Mandatory Scheme pays*
- *their AA calculation relates solely to the West Sussex LGPS*
- *where the AA charge is above £2,000*
- *the Fund is notified by the end of November following the tax year.*

OR

- *In exceptional circumstances where the member was not provided with the necessary information and has missed the Mandatory Scheme Pays deadline due to administrative difficulties caused by the Administering Authority, and*
- *following identification of the administrative error and the Fund notifying the member of the availability of Voluntary Scheme Pays, the member notifies the Fund within a reasonable time of their request to use Voluntary Scheme Pays.*

## **7 Other options considered (and reasons for not proposing)**

N/A

## **8 Consultation, engagement and advice**

N/A

## **9 Finance**

The Pension Fund continues to finance the data improvement work being completed by the administration team.

## **10 Risk implications and mitigations**

The following risks from the Pension Fund’s risk register are considered relevant in the context of this report:

<b>Risk</b>	<b>Mitigating Action (in place or planned)</b>
Poor quality data resulting in error and misstatement.	<p>Implement and monitor the Data Improvement Plan to completion.</p> <p>Work proactively with administration team and employers as part of the end of year process. Maintain robust accounting records.</p> <p>Data improvement plan largely completed.</p> <p>Risk status to be reviewed following full Actuarial Valuation.</p>
Increase in variety and number of employers participating in the Scheme resulting in risk of non-compliance with obligations.	<p>Clear Admission Agreements in place.</p> <p>Guidance published and reviewed relating to the Scheme requirements.</p> <p>Proactive engagement with employers.</p> <p>Development of employer risk framework to monitor and take steps to mitigate risk presented to the Fund in respect of participating employer liabilities.</p>

<b>Risk</b>	<b>Mitigating Action (in place or planned)</b>
Cybercrime resulting in personal data for members being accessed fraudulently.	<p>Strong IT environment for administration system and web-based Portals.</p> <p>Officers are taking appropriate advice in considering how risk can be managed/mitigated. Officers working with partners to codify arrangements.</p>

## **11 Policy alignment and compliance**

The Pensions Committee has an overarching objective to build on the improvement journey in relation to the administration and deliver a high quality administration service to all stakeholders with processes and procedures to ensure that the Fund receives all income due and payments are made to the right people at the right time, clear communication and robust accounting and reports.

Katharine Eberhart

**Director of Finance and Support Services**

**Contact Officer:** Tara Atkins, Principal Pensions Consultant, (0)330 222 8787, tara.atkins@westsussex.gov.uk

### **Appendices**

Appendix A - Administration Performance Previous 12 Months (1 July 2020 to 30 June 2021)

Appendix B – Contribution Receipts Previous 12 Months (1 June 2020 to 31 May 2021)

### **Background papers**

None

### **Training**

Hymans LGPS Online Learning Academy - Module 2 – Introduction to Administration | Module 6 – Understanding McCloud