Dorset Council

Pension Fund Committee

Pensions Administration

Date of Meeting: 27 November 2019

Director: Aidan Dunn, Executive Director for Corporate Development

Executive Summary: This report is the quarterly update for the Pension Fund Committee on all operational and administration matters relating to the Fund. It contains updates on the following: • CIPFA Benchmarking Results • GMP Rectification - Approval • Pensions Administration Strategy • Valuation Results 2019 • Regulatory Update • Equitable Life Changes • Key Performance Indicators
Equalities Impact Assessment: N/A
Budget: N/A
Risk Assessment: Having considered the risks associated with this decision, the level of risk has been identified as: Current Risk: N/A Residual Risk N/A
Climate implications: None
Other Implications: N/A

Recommendation: It is recommended that the Committee note and comment on the contents of the report.
Reason for Recommendation: To update the Committee on aspects of Pensions Administration
Appendices: • Appendix 1 - Draft Pensions Administration Strategy • Appendix 2 - 2019 Valuation Results View from Actuary • Appendix 3 - Equitable Life Transfer - Further Information • Appendix 4 – KPIs (August 2019 - October 2019)
Background Papers: • LGPS Regulations 2013
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1. Background

1.1. This report is the quarterly update for the Pension Fund Committee on all operational and administration matters relating to the Fund.

2. CIPFA Benchmarking Results - 2019

2.1. Each year, the Dorset County Pension Fund (DCPF) participates in the pension administration benchmarking club, a service provided by the organisation, Chartered Institute of Public Finance & Accountancy (CIPFA). The report compares the performance of each participating fund, enabling comparisons with the same service provision, and provides detailed feedback comparing each fund with all participating funds, and with their own selected 'comparator' group.

2.2. The final report for 2019 shows the net cost per member as slightly above average for the whole group, and slightly below average for the comparator group. Overall the report is extremely positive and illustrates both good performance and cost efficiency for the administration service.

2.3. The report covers cost, staff related and workload measures, industry standard performance Indicators, communications and IT and Data Quality. These excellent

results reflect the high standard of service provided to members and employers and the quality of data held in the fund.

3. **GMP Rectification**

3.1. The Guaranteed Minimum Pension (GMP) and Contracting Out Reconciliation exercise is now drawing to an end, with HMRC due to close its side of the operation by the end of December. Once this has been confirmed, and it is clear no further changes to GMP data will be issued, the Dorset County Pension Fund will need to commence the process of rectification.

3.2. The GMP amounts will apply to certain members of Contracted Out Pensions Schemes with membership between 6 April 1978 and 5 April 1997. This is effectively a minimum sum that must be paid by the relevant contracted out pension scheme. It is not an additional amount to be paid, but where a GMP applies it must be shown, and coded separately on the members pension record, recording both pre and post 1988 amounts separately. This is because indexation (pensions increases) is applied differently to this portion of the pension, with no indexation being applied to GMP amounts accrued prior to 1988, and a maximum of 3% indexation applied to post 1988 GMP amounts. Any 'missing' amounts of pensions increases due on the GMP amounts would be paid in with the state pension received by the member.

3.3. Incorrect recording of the GMP on pension records has a clear impact on the amount of pension paid. The project has identified cases where GMP figures have not been correctly recorded on the pensions in payment, resulting in either over, or underpayments of pensions. The DCPF administrators need to agree the approach by which these pension adjustments are made.

3.4. The government has not determined the approach to be taken by public sector schemes, each scheme will instead formalize their own approach. For the Local Government Pension Scheme, no single directive has been given by MHCLG or the Scheme Advisory Board, and individual funds must formalize their own policy and approach. The DCPF has been in discussion with funds in the South West (South West Area Pensions Officer Group - SWAPOG) to establish a single approach.

3.5. The SWAPOG group feel strongly that it is not keen to reduce pensions, and its preference would be to find an alternative approach, as has been achieved by the LGPS in Scotland, bearing in mind that these errors are the fault of the pension scheme administrators, not scheme members. However, MHCLG have made it clear that rectification must take place for the LGPS in England & Wales.

3.6. A summary of the key aspects of our intended approach, which is in line with other public sector schemes, is as follows;

- Where a pension has been identified as being overpaid, the correct level of pension should be paid going forward, but that no recovery of historic overpayments would be made.

- For members whose pension has been underpaid, the pension should be corrected, and appropriate arrears, with interest, paid to the member.
- The above approach is to be applied equally to both member and dependent pensions
- No adjustments to pensions will be made in respect of deceased members where there is no surviving dependent.
- A tolerance level of £2 per week variance has already been applied to GMP prior to identifying incorrect payments, ensuring that the scale and cost of the exercise is managed.

3.7. It is likely that this process in the new year will prompt complaints from pensioners, some of whom may be quite elderly, as their pensions will be reduced. We are looking closely at the communications we plan to use and will have a dedicated team to answer queries and deal with any issues that arise. Whilst it is important to be conscious of the fact that overpayments have a negative impact on the fund, it is equally important for us to be sensitive to the inevitable distress this may cause to affected members.

The initial plan is to write to members affected ahead of the planned month for change, detailing the background and informing the member of the changes to their pension. A second letter will then be sent just before the adjusted pension is paid.

3.8. The DCPF seeks approval for this approach to be taken.

4. Pensions Administration Strategy

4.1. The Pensions Administration Strategy (PAS) has been reviewed and updated and is attached as Appendix 2 for approval. Regulation 59 of the LGPS Regulations 2013 allows for an administering authority to prepare a written statement of the authorities' policies in relation to matters including communication, performance for both the administering authority and for the scheme employers, the setting of performance targets and procedures that aim to secure compliance with statutory requirements and the circumstances in which financial penalties may be imposed.

4.2. Discussion have been held with employers at our recent Pension Liaison Officers Group (PLOG) and discussions have been held with the various teams in the administration section to address any issues that have arisen and given rise to a need for change.

4.3. The DCPF seeks approval for the revised PAS which is attached as Appendix 1 in draft form.

5. Valuation Results 2019

5.1. The results of the 2019 valuation have been released by our actuaries, Barnett Waddingham, and employers are being notified of their indicative contribution rates for the next three years.

5.2. The results seen so far show an increase in funding levels and strong investment performance. However, despite these positives many employers are seeing an increase in their employer contribution rate, which will inevitably put pressure on some employers.

5.3. The annual Employers meeting was held on 14th November 2019 at Kingston Mauward College in Dorchester. Most employers received their results before the meeting and there was the opportunity to meet with the actuaries to discuss their individual results.

5.4. A summary of the Valuation outcome for 2019, provided by our scheme actuary, is attached at Appendix 2.

6. Regulatory Update

6.1. MHCLG received around 280 responses to their consultation on **Local valuation cycle and the management of employer risk** which closed on 31 July 2019. They expect to publish their response in the autumn of 2019.

6.2. The **Scheme Advisory Board (SAB)** published their Good Governance Report on 31 July 2019. Hymans Robertson are assisting the SAB in taking forward the project, with two working groups looking at;

- defining what is meant by good governance outcomes and providing the accompanying guidance
- options of the independent assessment of outcomes and the mechanisms to improve the delivery of those outcomes

The aim is to provide an options report for the SAB in November 2019. Any proposals agreed by the SAB will be subject to a full stakeholder consultation.

6.3. The consultation for the **Exit Payments Cap** closed on 3 July 2019 with around 600 responses being received by HMT. The Exit Cap will be introduced at some stage after March 2020, with further delays and some changes to the original proposals possible.

6.4. MHCLG have asked all LGPS funds for data to enable them to look at possible solutions to the **McCloud judgement**. At the time of writing this report no further news or developments are known.

6.5. Following the Government's consultation on NHS pension flexibility in response to the issues arising within the health service due to the **annual and tapered allowance tax charges**, HMT has announced that it will review how the tapered annual allowance supports the delivery of public services.

7. Equitable Life Changes

7.1. LGPS administering authorities are legally obliged to provide access to an in-house Additional Voluntary Contribution (AVC) arrangement for their members. The current provider for the DCPF is the Prudential, prior to this the provider was Equitable Life. At the time of change from one provider to the other, members were given the option to transfer from Equitable Life to the Prudential. Most members chose to do this, but not all. There are currently approximately 30 members with residual benefits in Equitable Life, totalling £129,121.99 in funds.

7.2. On the 15th June 2018, Equitable Life announced that they had entered into an agreement to transfer its business to Utmost Life and Pensions (previously Reliance Mutual). Equitable Life have made a proposal in two main parts:

The Scheme:
- increasing with-profits investments with an immediate one-off 'Uplift'
- removing any investment guarantees, and
- converting with-profits policies to unit-linked investments

The Transfer:
- To transfer to Utmost all the business of Equitable Life except for certain excluded policies.

In August 2019, Equitable Life wrote to all LGPS Administering Authorities affected by the transfer to advise them that as both 'Scheme Policy Holders' and 'Eligible Members' they were able to vote:

1. to approve the 'Scheme'
2. to 'Change the Articles'

Administering authorities could also object to the transfer.

7.3 The DCPF consulted with its actuaries, Barnett Waddingham, to investigate the proposal and provide a recommendation on how to vote in relation to the above proposals and how this would impact the 30 members who hold with profits investments within Equitable life Having competed their analysis of the data Barnett Waddingham concluded that it would be in the members interest to vote wholly in favour of both proposals and this how DCPF used its vote.

7.4. In the event that the proposal goes ahead then the DCPF will contact all the affected members and offer them the choice of either selecting their own investment strategy from the unit-lined investments that are available through Utmost Life and Pensions, or they will be invested into the default Automatic Investment Option

Further information is attached at Appendix 3.

8. Key Performance Indicators and work backlogs

5.5. The Key Performance (KPI) Indicators for the period 1 August 2019 to 31 October 2019 are attached at Appendix 4. This represents the ten key areas for the Fund but does not cover all work completed.

Aidan Dunn
Pension Fund Administrator
27 November 2019