

Pension Fund Committee

10 September 2020

Pensions Administration

Choose an item.

Portfolio Holder: Choose an item.

Local Councillor(s): All Councillors

Executive Director: Aidan Dunn, Executive Director, Corporate Development

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Report Status: Public

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

1. 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:

- Annual Benefit Statements 2020
- Data Quality Report 2020
- Review of In-House AVC Provider
- Exit Cap Update
- MHCLG Consultation on McCloud
- Risk Register (Administration and Governance) Review
- The LGPS (Amendment) (No2) Regulations 2020
- LGPS National Knowledge Assessment
- Systems Procurement

- Weymouth Port Health Authority
- Key Performance Indicators

2. Financial Implications

N/A

3. Climate implications

None

4. Other Implications

N/A

5. 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

6. Equalities Impact Assessment

N/A

7. Appendices

- Appendix 1 - DCPF Annual Benefit Illustration 2020
- Appendix 2 - DCPF 2020 newsletter
- Appendix 3 - DCPF Data Quality report Common Data 2020
- Appendix 4 - DCPF Data Quality Report Scheme Specific Data 2020
- Appendix 5 - Public sector exit payments Consultation response
- Appendix 6 - Consultation on Statutory Underpin (McCloud)
- Appendix 7 - DCPF Risk Register June 2020 + Covid19
- Appendix 8 - Government response Exit payments and employer contributions
- Appendix 9 – KPIs (February 2020 - July 2020)

8. Background Papers

- [LGPS Regulations 2013](#)
- <https://www.legislation.gov.uk/uksi/2020/893/introduction/made>

9. Background

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

10. End of Year Processes and Annual Benefit Statements 2020

- 10.1 The annual end of year processes for the Dorset County Pension Fund (DCPF) employers was completed this year by the end of June. An extension of one month to the normal timescales was agreed with employers to allow for the difficulties they faced due to lock down.
- 10.2 Despite the additional challenges this year, the quality of the data received was excellent, and employers made an exceptional effort under difficult circumstances. No penalties were charged for late submission this year, but charges as set out under our Pensions Administration Strategy (PAS) will be issued to employers for non-notification of scheme leavers and new starts. Three employers presented particular difficulties to the team, and this is being addressed through the PAS and has been discussed with the Local Pensions Board. Additional support is given to any employer struggling with their responsibilities to the LGPS.
- 10.3 A total of 21,717 deferred Annual Benefit Illustrations (ABI) were issued in May this year, and all active member ABIs, in total 23,889, were issued by 12 August. The statutory deadline for the issuing of statements is 31 August. The active member statement is attached at Appendix 1, and this was issued together with our annual newsletter, attached as Appendix 2.
- 10.4 Both of these were well received by members, and enable us to check our data is correct, keep members up to date with the latest developments within the LGPS and wider pensions landscape, and ensure members understand the scheme benefits and their value.

11. Data Quality Reports 2020

- 11.1. Each year, the quality of our data is reviewed and measured. This serves two main purposes. Firstly, it feeds into the future year's Data Improvement Plan, and secondly it provides the Data Quality scores for the Dorset County Pension Fund which must be

reported to The Pensions Regulator each year and recorded in the Fund's Annual Report.

- 11.2. The 2020 Data Quality reports, for both 'Common' and 'Scheme Specific' data, are attached at Appendix 3 and 4. This provides a summary of data integrity as at July 2020 and gives a comparison with the position in 2019.
 - 11.2.1. **Common Data** – is the reporting items applicable to all pension schemes. The overall score of tests passed for common data held was 99.40%, an improvement over the 2019 rate of 99.30%.
 - 11.2.2. **Scheme Specific Data**, (also known as 'Conditional' data) is the data specific to the LGPS. The overall score for scheme specific data was 98.20%, an improvement over the 2019 score of 98.10%.
- 11.3. The information received feeds into our 2020 Data Improvement Plan and data cleaning programme.
- 11.4. These excellent results illustrate the continued work of the Fund to ensure continued high-quality data, and the close working relationship with employers to support them in providing accurate data in such a complex pension scheme. These results give confidence that the right benefits are being paid to members.

12. Review of Additional Voluntary Contributions (AVC) Provider

- 12.1. The Dorset County Pension Fund (DCPF) appointed Hymans Robertson LLP to conduct a review of the fund's Additional Voluntary Contribution (AVC) arrangements. The review covered the following;
 - Summary the DCPF's present AVC arrangements
 - Comments on the existing investment options
 - Outline of a revised range of AVC investments options
 - Comments on Prudential and Utmost as AVC providers
 - A general comparison of the leading AVC providers for the LGPS
 - Suggested further actions

It would be helpful to have a small working group, with some input from the PFC, to look at the content of the review and consider the suggested further actions.

- 12.2. Currently the DCPF has the Prudential as its chosen provider for the in-house AVC facility, prior to this, the provider was Equitable Life, who have recently become Utmost Life & Pension, and with who we still have members with funds. As at the time of the report, DCPF had 640 members (deferred and active) with assets in the Prudential totaling £7.6 million. There are 44 members with assets in Utmost, to the value of

£200k.

- 12.3. Prudential are currently going through significant corporate changes following the demerger of M&G/Prudential UK from Prudential plc. They have been the leading provider for LGPS AVCs for a long time however changes to fund range, cutbacks in support and delays in development have undermined their competitive position. There are other providers, but they don't have a lot, or any experience in the LGPS AVC market.
- 12.4. Hymans are still recommending that the Prudential remain as the DCPF main provider for the time being, with reasons set out in their report. However, they are not convinced of their long-term commitment to the AVC pension provision, and they feel this should be kept under review.
- 12.5. One clear recommendation from the review concerns the current default investment option chosen by the DCPF. This is currently the With Profits Fund, and Hymans feel that this is no longer a suitable default option and have proposed a three-stage lifestyle strategy that they have developed for the Prudential. The DCPF now needs to consider this recommendation in light of this review.
- 12.6. The review also comments on the recent move from Equitable Life to Utmost during which the With Profits Fund was removed and investments moved to a lifestyle option from July. Hymans advised that this was not a suitable option for LGPS AVCs, and have recommended that we chose a new investment option and also investigate a transfer of the AVCs to the Prudential.
- 12.7. The review also recommends a review of the fund's communications in regard to AVCs, and the arrangement of an annual review of investment and competitiveness of providers.

13. Exit Cap

- 13.1. On 21 July the Government published its [response](#) to the Public Sector exit payments consultation launched in April 2019. This is attached at Appendix 5. The consultation received around 600 responses.
- 13.2. The consultation confirms the level of the cap is to remain at £95k and that all public bodies will be affected at the same time once the legislation comes into force. Payments in scope remain as per the 2019 consultation, and so will include pension strain costs.

- 13.3. Timescales have not been confirmed, but it is understood that implementation will be by the end of this year. Revised legislation and guidance will be needed, and I understand that a consultation and draft regulations will be published imminently.

14. MHCLG Consultation on McCloud

- 14.1. On 16 July 2020 MHCLG published a [consultation](#) on changes to the LGPS to meet the requirements of the McCloud case. This is attached at Appendix 6. This is the proposed remedy to address the age discrimination inherent within the transitional protections, via the underpin, when the LGPS moved to the CARE scheme in 2014. The transitional protections in the LGPS afforded protection to active members in 2012 who were within 10 years of normal retirement age, ensuring they would be no worse off under the new CARE scheme than in the previous Final Salary Scheme. The McCloud judgement means that this underpin protection would be extended to all active members in 2012, regardless of their age.
- 14.2. The impacts of this are significant for LGPS funds, and as well as preparing a response to the consultation by the deadline of 8 October, the DCPF will now need to start its planning and preparation for the impact of the proposed remedy which will require a significant amount of administration and communication.
- 14.3. A provisional analysis of the DCPF membership has been done which shows approximately 22,000 members will be affected. For each member, employers will need to provide contractual hour changes history and service break data back to April 2014. This will then have to be recorded on our system, and 1000s of benefits re-visited and re-calculated. A dedicated McCloud project and resource will be needed.
- 14.4. In addition to the impact to funds in terms of administration, this will have a impact on employers which will lead to increased costs. DCPF employers have already been consulted on this and have expressed their concerns. It will certainly be the case that we will be unable to obtain all the necessary data for all members affected.
- 14.5. The proposed remedy is additionally likely to add to the funds liabilities, though in general any impact to contribution rates is likely to be small. However, it may have a more significant impact for employers with younger membership profiles.

15. Risk Register (Administration and Governance) Review

- 15.1. The DCPF Risk Register has been reviewed in response to the COVID-19 pandemic. This has been approved by the Local Pension Board at their meeting on 9 July 2020 and is attached at Appendix 7.

15.2. The main risks highlighted presented by the pandemic were;

- Admitted body employers becoming financially unviable
- Employers being unable to pay their contributions
- Impacts to the service as a result of staff absence or loss of Council facilities
- Failure to issue Annual Benefit Statements within statutory deadlines
- Failure of Employers to submit data by required deadlines
- Potential failure of Pension Fund Committee and Local Pension Board to meet and fulfil its governance duties

15.3. I am pleased to report that to date the fund has not experienced any of the above concerns to any notable degree. However, the full impact on employers is not yet known, and may not be known for some while. Contributions are monitored monthly and to date no major concerns have arisen. We are separately in the process of conducting a bond review with our actuary to ensure the value of any bonds in place cover anticipated liabilities. This will be completed by the December PFC meeting.

16. The LGPS (Amendment) (No2) Regulations 2020

16.1. On 26 August the government published its [response](#) (Appendix 8) to the proposals on employer contributions and flexibility on exit payments, with a further response still to come in relation to the other proposals contained in the original consultation.

16.2. The original consultation ended on 31 July 2019, and since this time administering authorities and employers have faced a new potential risk as a result of the global pandemic, and have as a result sought the early implementation of these proposals in order to assist management and mitigation of these risks.

16.3. On 27 August 2020, the [LGPS \(Amendment\) \(No.2\) Regulations 2020](#) were laid in parliament which enable these regulations to come into force on 23 September 2020.

16.4. **Review of Employer Contributions** - the regulations have been amended to grant administering authorities and employers the flexibility to review contribution rates of an employer where there has been significant change to the liabilities or employer's covenant, or upon the request of an employer. The administering authority will be required to state their policy on such reviews in their FSS and obtain advice from their actuary.

16.5. **Flexibility on Exit Payments** - this is a particularly welcome proposal, and provides for the following new options in managing exiting employers:

- Agreement of a re-payment schedule

- Agree a Deferred Debt Agreement (DDA), allowing the employer to continue paying deficit contributions after their last active member has left

17. LGPS National Knowledge Assessment

- 17.1. In February 2020 Hymans Robertson launched their LGPS NKA. This looked the knowledge of key decision makers in both Pension Committees and Local pension Boards, both individually and collectively.
- 17.2. About 225 members across 20 administering authorities participated and the [National Knowledge Assessment report](#) was published on 18 August 2020. The highest scoring sections were Financial Markets and product knowledge. The lowest scoring sections were Actuarial Methods, Standards and Processes, followed by Pensions Administration.
- 17.3. The report also includes an analysis of how the NKA compares with the 2018 National Confidence Assessment, and also includes a helpful list of training topics identified by participants.

18. Software Procurement and Loss of LPP Supported Systems

- 18.1. Since 2014, the DCPF has been running additional software, provided by the London Pensions Partnership (LPP), which has enabled us to make huge improvements in our processes and employer support. This has provided us with an excellent Case Management System, and an Employer Portal, and these systems have become intrinsic to our service.
- 18.2. The LPP has recently informed us that they do not intend to continue to support this system and have served notice on its withdrawal. This has been a huge disappointment to the administration team.
- 18.3. In 2021, the contract with our main software provide ends, and as a result we have started a procurement process which will either replace or extend our current software. The Procurement process is being done through the National LGPS Administration Framework, and we hope to have awarded a new contract by the end of September 2020.
- 18.4. In addition, due to many years of audit problems and other difficulties, we have decided to include payroll function within the procurement so it can be brought back 'in-house'.

Currently we pay Dorset Council to pay our pensions for us.

- 18.5. LPP have additionally provided our website, this is also being withdrawn from the end of September 2020. This is being replaced by two separate websites, one solely for members which is being provided by Hymans Robertson, and a second site purely for employers which we are providing in-house. Both websites will be live by the end of September 2020.

19. Weymouth and Portland Health Authority

- 19.1. It has come to our attention that the Weymouth & Portland Health Authority should have been included as an additional employer in the Local Government Re-organization as of April 2019. This employer had been omitted from the formal discussions, LGR papers and Orders at that time, but had in fact been included within the reorganization with staff having transferred to Dorset Council.
- 19.2. Dorset Council's legal services have been informed, as have the actuaries who will arrange for assets to be included in with those of Dorset Council including deferred and pensioner members. This is not a large employer, and any impact will be minimal.

20. Key Performance Indicators

- 20.1. The Key Performance Indicators (KPI) for the period 1 February 2020 to 31 July 2020 are attached at Appendix 9. This represents the ten key areas for the Fund but does not cover all work completed.
- 20.2. This period includes of course the lockdown period, where homeworking for all staff commenced on 23 March 2020. This has presented a challenge to the team in the critical areas, the payment of pensions, death benefits and also in connection to transfers, where post in and out is needed. Other work areas have not been so affected. Despite the best efforts of the team, there has been an impact, and although there is a gradual improvement, this will remain an impact and a difficulty until more staff can return to the office environment.

Footnote:

Issues relating to financial, legal, environmental, economic and equalities implications have been considered and any information relevant to the decision is included within the report.