

# **Pensions Fund Committee**

## **29 November 2022**

### **Pensions Administration**

#### **For Review and Consultation**

**Portfolio Holder:** Cllr G Suttle, Finance, Commercial & Capital Strategy

**Local Councillor(s):** All

**Executive Director:** A Dunn, Executive Director, Corporate Development

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**Report Status:** Public

#### **Brief 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:

- Key Performance Indicators
- Annual Benefit Illustrations 2022
- Pensions Dashboard Programme Update
- McCloud Update
- Data Quality Scores
- Valuation Update
- Overseas Existence Checks
- Employer Update
- 2016 Cost Cap Valuation Report for the LGPS
- SAB Annual Report 2021
- September 2022 CPI rate announced

## **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 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 Key Performance Indicators**

2.1 The key performance indicators are attached at Appendix 1. These are for the period 1 August 2022 to 31 October 2022.

### **3 Annual Benefit Illustrations 2022 for Active and Deferred Members**

3.1 I can confirm that 22,677 Annual Benefit Illustrations (ABIs), attached at Appendix 2, were issued on 15 August 2022, ahead of the statutory deadline to active members.

3.2 An annual newsletter, see Appendix 3, containing essential updates and information for members, was issued with this statement.

3.3 Statements to 20,677 deferred members were issued on 20 June 2022, attached at Appendix 4. In addition, 28 ABIs were issued to deferred councillor members.

3.4 Despite the change in our main administrative system within the last year, this process was extremely successful, and the statements were well received by members. Some minor issues were identified that occurred as a direct result of the system change, this only impacted a few members and was not connected to member benefit calculations. These minor issues will be resolved for future statements.

3.5 Paper ABIs cannot be issued to members where a current address is not held. But all scheme active and deferred members have the ABI data on the Member Portal.

3.6 This is a particularly important statutory requirement for the Fund. It serves several purposes that benefit the Fund, members and employers. In the current financial climate, it provides valuable information to members who may feel some pressure to opt out of their pension scheme. Benefits include:

- Awareness of scheme benefits to members
- A reminder of any death grant nominations made
- A check of the pay data provided by the employer used to calculate pension accrual in the last year
- A check that essential data requirements, such as address and marital status, are up to date and correct
- A reminder of pensions tax impacts for high earners
- The Fund's data is up to date and correct, meeting requirements set out by the Pension's Regulator, and contributing to the high quality of data held.
- Highlight important changes to the LGPS and/or associated regulations, for example McCloud and possible changes to the Normal Pension Age. When new regulations come into effect, this is a disclosure requirement.

#### **4 Pensions Dashboard Programme**

- 4.1 On 17 October 2022, DWP laid a draft of [The Pensions Dashboard Regulations 2022](#) before each House of Parliament.
- 4.2 On 15 July 2022, the Department for Work and Pensions (DWP) responded to the consultation on draft regulations. DWP also published a [summary of the key policies](#) and these reflect the response to the consultation.
- 4.3 One of the key areas of the response relates to the LGPS staging date. The staging date for the LGPS, and all other public sector pension schemes, will be deferred from 30 April 2024 to 30 September 2024.
- 4.4 The staging date has been deferred, as public sector schemes will be dealing with the impact of the regulatory changes for the McCloud remedy from October 2023.
- 4.5 On 19 July 2022 the Pensions Dashboard Programme (PDP) launched a [consultation](#) and call for input on standards and guidance. The closing date for this consultation was 30 August 2022.
- 4.6 On 3 August 2022, the Department for Work and Pensions (DWP) confirmed that frozen refunds will be out of scope for initial dashboards because they are not considered to be member benefits. This does not exclude them from being a future consideration.
- 4.7 This is a disappointment from the perspective of the LGPS, who has more frozen refunds than other pension schemes and public sector groups. They are also potentially of value to members and are expensive for us, as a Fund, to administer.

#### **5 McCloud Update**

- 5.1 It had been anticipated that DLUCH would publish the Government's response to their 2020 consultation, setting out decisions on the matters covered in that consultation this autumn. It is now expected that this will be delayed until the spring of 2023.

- 5.2 DLUCH intend to publish an updated version of the draft regulations implementing the McCloud remedy considering new powers within the Act governing the underpin, as well as some technical aspects and changes in policy.
- 5.3 It is expected that the draft regulations will be subject to a further period of consultation in 2023. It is also anticipated that regulations will be finalised later in 2023 and will come into force on 1 October 2023. Additionally, DLUCH intend to issue the necessary statutory guidance for these regulations in 2023.
- 5.4 McCloud Remedy in the Teachers' Pension Scheme (TPS) – confirmation has been received that the McCloud remedy for TPS means that any additional part time employments will retrospectively change from being pensionable under the TPS CARE scheme to LGPS membership for the remedy period.
- 5.5 DfE has estimated that approximately 18,000 teachers are in a position that means this is likely to impact them. This is a sizeable additional administrative challenge for all administering authorities.

## **6 Data Quality Report 2022**

- 6.1 Each year, the quality of our data is reviewed and measured in accordance with guidance set out by the Pensions Regulator. 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.
- 6.2 Despite the change to a new administration system in the last year, the results for 2022 are excellent. This reflects the extensive work carried out by the team during the data migration process, including separate projects to look at data comparison figures for annual benefit statements in both the old and new systems, and a commitment to investigate all discrepancies.
  - 6.2.1 **Common Data** – this is the reporting items applicable to all pension schemes. The overall score of tests passed for common data held was 99.07%, which is marginally lower than the 2021 score of 99.40%.
  - 6.2.2 **Scheme Specific Data**, (also known as 'Conditional' data) is the data specific to the LGPS. The overall score for scheme specific data was 94.38, a slight reduction from the 2021 98.90%. The reduction in the conditional data score is a result of issues, which have been raised, with the report itself as provided by Civica.
  - 6.2.3 A data improvement plan is attached at Appendix 5 This, together with continued discussions with our software supplier regarding the supplied reports, means that we are in a good position going forward.

## **7 Valuation 2022 Update**

- 7.1 The required data for the 2022 Valuation has been successfully extracted and has been provided to the Scheme Actuary together with the necessary pensioner payroll data. Preparation for the data submission included clearing 18,900 errors, a considerable effort by the team to ensure accuracy of our data, this was completed within the agreed timescales.
- 7.2 The separate payroll provision has caused additional cost and a large number of errors. This additional complexity for the valuation should be addressed moving forward as the payroll system for pensioners becomes integrated with our administration system.
- 7.3 It is anticipated that employer contribution rates can be confirmed by November 2022.
- 7.4 **McCloud** – Additional work for this valuation concerns the inclusion of consideration for the McCloud remedy. In March, DLUCH wrote to all administering authorities setting out the expected approach to be taken to value member benefits under the McCloud remedy.
- 7.5 For this valuation, focus will only be given to active members. The process involves considering the potential value, based on current data, of any additional benefits that may be due under the new proposals. I have asked the actuary to feedback on this impact once the data is available
- 7.6 **Climate Risk** – this is the first valuation in which consideration is to be given to climate risk. This is a requirement by GAD under the recommendations of their latest Section 13 review, as well as being supported by DLUCH.
- 7.7 Climate Risk is a significant risk, currently considered by the Fund in its investment strategies. This valuation considers climate change as a risk in its own right. For this valuation, Barnett Waddingham have been working with GAD and other actuarial firms to produce a key set of principles with which to approach climate risk.
- 7.8 **Longevity** – Barnett Waddingham has analysed longevity in the DCPF for the 2022 valuation. The analysis was carried out by longevity specialists using the Dorset Fund's data for the 5 years up to 31 December 2021. These results will be used to set the assumptions for the 2022 valuation calculations.
- 7.9 Overall, the outcome is that life expectancies are lower than they were at the 2019 valuation, and it is estimated that this will improve the funding position by around 3%, reducing the primary rates by around 0.6% of pay. The full final impact will be reported as part of the initial results.

## **8 Overseas Existence Checks**

- 8.1 The Fund receives monthly reports of UK deaths to check against our pensioner data base, guarding against fraud and overpayments. However, there is no equivalent to check on possible deaths for our pensioners living overseas, for whom there is a higher risk of fraud.

- 8.2 A project is underway, working with Western Union, to complete Existence checks on all overseas pensioners. This involves a process of Life Certification, where pensioners are required to have their identity checked, in person, at a nearby Western Union Office. A £10 currency equivalent is given to the pensioner once the process is complete, to thank them for their help and assistance. Alternative arrangements will be in place to assist members who cannot, for health or location reasons, attend a Western Union Office in person.
- 8.3 The DCPF has a total of 453 pensioners living overseas in 28 countries; of this total, 447 can be covered by the project, and 6 cannot be covered as they live either in South Africa or St Helena Island. These members will be written to, and the alternative process used to check their identity.
- 8.4 Initially, a letter of introduction to the exercise was sent to pensioners in September 2022. This has subsequently been followed by a further letter at the beginning of November setting out the process of Life certification and the necessary instructions.
- 8.5 Pensioners who do not complete the Life Certification process by the completion date will be contacted again, and if necessary, their pension payments will cease until a satisfactory identity check has been completed. It is expected that this project should be completed by March 2023.

## 9 Employer Update

- 9.1 Below is an update on recent employer movements and changes within the Fund. The last update was provided in March 2022, and so the details below are changes since that date.
- 9.2 Bournemouth Transport was reported as a ceased Fund employer, as at 28 September 2021, in the March 2022 administration report. Bournemouth Transport was in the process of setting up a Deferred Debt Arrangement to manage outstanding liabilities to the Fund. However, Bournemouth Transport has now gone into receivership.

<b>New admitted bodies</b>		
<b>Name</b>	<b>Date admitted</b>	<b>Service</b>
Care Dorset	01/10/2022	Care provision
Cater Link Ltd	01/09/2022	Catering - St Peters CVAT
Churchill Contract Services	21/10/2022	Cleaning – Avonbourne Academy
Enigma CCTV Ltd	01/08/2022	CCTV monitoring

Foundation Sport	01/11/2022	After school club – Epiphany Academy
Glen Cleaning	01/08/2022	Cleaning – Plymouth CAST

<b>Cessations</b>	
<b>Name</b>	<b>Date Ceased</b>
Arts Development Company	31/03/2022
Poole Housing Partnership	30/06/2022

## **10 GAD publishes 2016 Cost Cap Valuation Report for the LGPS**

- 10.1 The Cost Cap is a complex process managed by the Government Actuary's Department (GAD), and is a requirement of the [Public Service Pensions Act 2013](#)
- 10.2 This process measures the cost of the LGPS, with the current target cost being 19.50% of pay. Legislation requires action if this target cost is breached by +/- 2% of pay. Any such breach would lead to the adjustment of scheme benefits or contribution rate changes to members.
- 10.3 The initial results published in 2018 suggested a negative breach and proposals were set out to adjust member benefits accordingly. However, the cost cap mechanism was paused in light of the McCloud judgement and revisited with this additional potential impact taken into account.
- 10.4 On 29 June GAD [published](#) the 2016 cost cap updated valuation report for the LGPS which take into account McCloud costs. These results show no breach of the cost cap floor or ceiling. Therefore, there will be no changes to member benefits or contribution rates as a result of the 2016 cost cap mechanism.
- 10.5 However, this is still subject to an ongoing legal challenge by the Fire Brigades Union and the British Medical Association which questions the validity of pausing the process initially, and questions the way in which the McCloud costs have been accounted for within the process.

## **11 SAB Annual report 2021**

- 11.1 On 13 June 2022 the Scheme Advisory Board (SAB) published the [LGPS's scheme annual report for 2021](#). This provides a single source of information about the LGPS taking into account the 86 administering authorities as at 31 March 2021.
- 11.2 Highlights from the report include:
- Total membership grew by 1.08% to 6.225 million

- Total assets increased to £342 billion, an increase of 23.4%
- Local Authority net return on investment over the year was 20.56%
- A positive cash-flow was maintained overall
- Over 1.8 million pensioners were paid
- COVID-19 significantly affected life expectancy, with a drop of 0.9 years and 0.5 years for males and females respectively
- Total management charges increased by 12.9% to £196 million, while administration, oversight and governance costs remained broadly the same

11.3 On 26 October 2022, DLUHC published the [Local Government pension scheme statistics for England in Wales](#) which additionally provides a valuable update on the current position of the LGPS.

## 12 September 2022 CPI rate announced

12.1 On 19 October 2022, the [Office for National Statistics announced the Consumer Prices Index \(CPI\) rate of inflation for September 2022 as 10.1%](#).

12.2 Government Policy in recent years has been to base increases under the [Pensions Increase Act 1971](#) and the revaluation of pension accounts under [section 9 of the Public Service Pensions Act 2013](#) on the rate of CPI in September of the previous year.

12.3 We await confirmation from Government that the revaluation and pensions increase that will apply to LGPS active pension accounts, deferred pensions and pensions in payment in April 2023 will be 10.1%.

### 1. Financial Implications

N/A

### 2. Climate Implications

None

### 3. Well-being and Health Implications

None

### 4. Other Implications

N/A

### 5. Risk Assessment

- 5.1 **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 – KPIs (May 2022 to July 2022)  
Appendix 2 – DCPF Annual Benefit Statement 2022  
Appendix 3 – Annual Newsletter for Active members  
Appendix 4 – Deferred Member Annual Benefit Statement 2022  
Appendix 5 – Data Improvement Plan

8. **Background Papers**

[LGPS Regulations 2013](#)

[Cost cap valuation of the Local Government Pension Scheme \(England and Wales\) - GOV.UK \(www.gov.uk\)](#)

[Public Service Pensions Act 2013 \(legislation.gov.uk\)](#)

[LGPS Scheme Advisory Board - Scheme Annual Report \(lgpsboard.org\)](#)

[Summary of key policies: Draft Pensions Dashboards Regulations 2022 - GOV.UK \(www.gov.uk\)](#)

[Pensions dashboards standards consultation | Pensions Dashboards Programme](#)

[Local government pension scheme funds for England and Wales: 2021 to 2022 - GOV.UK \(www.gov.uk\)](#)