



LOCAL PENSION BOARD - 10 AUGUST 2020

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

**PENSION FUND ADMINISTRATION REPORT – APRIL TO JUNE
2020 QUARTER**

Purpose of the Report

1. The purpose of this report is to inform the Board of relevant issues in the administration of Fund benefits, including the performance of the Pensions Section against its Performance Indicators.

Background

2. The Pensions Section is responsible for the administration of Local Government Pension Scheme benefits of the Leicestershire Pension Fund's 98,000 members.

Performance Indicators

3. Attached as an appendix to this report are the performance indicators for the Pensions Section, which form part of the Section's Service Plan and have been agreed by the Director of Corporate Resources. These indicators are split into two broad categories – how quickly processes are carried out and how customers feel they have been kept informed and treated by staff.
4. The results for the April to June 2020 quarter are detailed within Appendix A. It is important to note; some of the April KPIs had to be briefly suspended due to changes of working processes, brought about by the urgent need to relocate Pension colleagues to home working due to the Covid-19 outbreak. May and June's KPIs reflect the full period. Given the 3-month period covers the Covid-19 pandemic period, the Pension Manager is very pleased with the overall results.

Administration

General Workloads

5. The tables below show the position in the key work areas, April to June 2020.

April 2020

Area	Cases completed in the period	Remaining cases at the end of the period	KPI Maximum - cases at the end of the period
Preserved benefits	20	727	750
Aggregations	107	979	250
Interfunds in	12	88	150
Retirements	324	457	500
Deaths	77	154	100

Area	Cases completed in the period	Remaining cases at the end of the period	KPI Maximum - cases at the end of the period
Preserved benefits	6	812	800
Aggregations	152	1011	450
Interfunds in	7	100	150
Retirements	264	401	500
Deaths	71	179	100

June 2020

Area	Cases completed in the period	Remaining cases at the end of the period	KPI Maximum - cases at the end of the period
Preserved benefits	154	772	850
Aggregations	91	1030	450
Interfunds in	10	114	150
Retirements	264	426	500
Deaths	106	143	100
Transfers Out (new area)	6	61	100
Refunds (new area)	127	505	500

6. The main points to note;

- Deaths increased due to Covid-19 but are now starting to reduce back to pre Covid levels;
- Two new areas have been added to the workload reporting areas. Transfers Out and Refunds. This is due to an anticipated rise in members requesting transfers out, and members with under two years, opting out to claim refunds. These are indirect impacts from Covid-19, whereby members trying to gain additional income to help support them through furlough, or the expected forthcoming recession.

Year-End 2019/20 (Position as at 17 July 2020)

7. All employers were written to earlier in the year informing them of the year-end deadlines. There were a handful of employers that were late sending in their year-end return, but these employers were chased by Pension Fund Officers and all were eventually received.
8. Officers have been loading career average pay and contributions to members records and dealing with employers on data queries that have arisen. Employers have until the 31 July 2020 to respond to queries. The Pension Section has until the 14 August 2020 to make any final changes to members data, prior to running the statements, ready for distribution on the 31 August 2020 statutory deadline.
9. One Fund employer, the Vines Academy, is having trouble replying to their pay data queries. However, colleagues at the employer and Pension Fund Officers are both actively engaged in resolving these, but the timeline for completion could be troublesome. It is still expected members will receive their statements by the 31 August 2020, however the Pensions Manager would rather ensure the accuracy of the statements, rather than rush them to make the deadline, so it is possible these statements are delayed and sent out after the 31 August 2020. The Pension Manager

does not consider this a material breach as statements will still be produced, and they were also produced last year for this employer.

10. The Pension Manager is pleased to report to the Board, at total Fund level there are no material breaches expected and active members will receive their annual benefit statements by the 31 August 2020. Taxation Pension Saving Statements are also being worked on, ready for distribution by the 6 October 2020 deadline.

McCloud/Sargeant and the Cost Cap

11. When the Local Government Pension Scheme (LGPS) changed from a final salary to a career average (CARE) pension scheme in April 2014, protections for older scheme members were introduced. Similar protections were provided in other public sector pension schemes. The Court of Appeal ruled that younger members of the Judges' and Firefighters' Pension schemes were discriminated against because the protections did not apply to them.
12. The Government has confirmed that there will be changes to all main public sector schemes, including the LGPS, to remove this age discrimination. This ruling is often called the 'McCloud/Sargeant judgment'.
13. [The Government is consulting on the proposed changes to remove unlawful discrimination found by the Courts from 16th July to 8th October](#). It is understood scheme members hour changes and breaks in service will be needed from April 2014 as part of the remedy. If changes to the regulations are approved members benefits will be reassessed to see if the final salary benefits are higher than the CARE benefits. If so, revised benefits will be paid.
14. The Pensions Manager has written to all the Fund's employers to make them aware of the remedy, and will provide a national template and notes, to assist employers provide the missing data. Hymans, the Fund's Actuary has provided a very useful summary of the consultation, and this is included as Appendix B. Generally, the Fund is in broad agreement with the consultation and it covers much of what was expected. The Pensions Manager will work through the consultation and provide a copy of the Fund's reply to the Board at the next meeting.
15. The increased McCloud/Sargeant costs will also impact on the cost cap, a mechanism that is used to ensure that the costs of a pension scheme remain affordable and sustainable in the long term. When the cost cap breach took place in 2016 it was on the "low" side, so members benefits expected to improve. Then McCloud/Sargeant "overtook" the cost cap work, and it paused.
16. The McCloud/Sargeant costs are to be included in the "member costs" so effectively the cost cap will be recalculated. At this stage it is unknown how much of a cost McCloud/Sargeant will have on the cost cap level, but it certainly means costs will rise and the expected improvements to members benefits will reduce. However, by how much is unknown currently.
17. The Pensions Manager has proposed a change to the Pensions Team structure to assist with the McCloud/Sargeant work. Officers are also working on a priority order, to deal with the most likely cases that need revised benefits.

£95,000 Exit Cap

18. On the [21 July 2020 Government provided their response to the £95,000 exit cap consultation from April 2019](#). Government indicate they will continue with the

implementation of the exit cap and pension strains will be included. This gives rise to potential LGPS regulations that may require change.

19. For example – under the current LGPS regulations If someone is made redundant age 55 – they qualify for immediate payment of unreduced LGPS benefits – there is no member option under the current regulations. The employer pays the strain in full to the fund.
20. If in the example above the member’s pension strain is over £95,000 (and the £95,000 exit cap rules are in place), then there needs to be something in the LGPS Regulations to allow the member to decide not to take their full unreduced benefits, instead allowing the benefit to be reduced to permit the exit credit not to be more than £95,000.
21. Currently all LGPS Funds use strain factors calculated by their Fund actuary, for their own specific Fund. Under the new exit credit, it seems certain that there will need to be nationally agreed factors all funds use, to provide a fair and consistent approach to the calculation of the exit cap. At this stage there is no proposed implementation date.

Governance Items

Complaints Policy

22. The Pension Section deals with complaints through the Local Government Pension Scheme’s formal Internal Dispute Resolution Procedure (IDRP). However, complaints are usually resolved informally, avoiding the need for the IDRP to commence. Initial complaints are often caused by misunderstandings or human error and can quickly be resolved.
23. In the period April to June 2020 there were no new IDRP stage 2 appeals. There was development on four earlier Stage 2 cases;
 - A member’s appeal was not upheld by the Pensions Ombudsman.
 - A member’s appeal was not upheld by the Stage 2 decision maker and the member may now choose to take their appeal to the Pensions Ombudsman
 - The Stage 2 decision maker has referred the appeal back to the member’s previous employer, asking them to reconsider their Stage one decision.
 - An appeal that was referred back to the member’s previous employer by the Stage 2 decision maker, are now awaiting further occupational information to help them reassess their original decision.

Implementation of monthly posting

24. The Pension Section continues a phased implementation of monthly postings using I-Connect, as part of the Leicestershire Fund’s data improvement plan.
25. In the quarter April to June 2020 the main emphasis has been ensuring those employers already posting monthly have provided all their data, in preparation for year-end. The main developments in the last quarter are;
 - All employers paid by Leicester City Council are live and up to date with information posted for 2019/20: These include; Broughton Astley Parish Council, Melton Borough Council, Harborough District Council and Leicester City Council.

- De Montfort University (DMU), who had experienced delays and issues with the I-Connect report generation, is now up to date with information posted for 2019/20. The Pension Section aims to hand this over to DMU for them to continue the process as “business as usual”, after year-end work is complete.
 - Training is in progress within the Pension Section, for another team member to assist with onboarding new employers to the I-Connect system.
26. The I-Connect implementation project has not progressed as planned in recent months, partly due to more resources being required to ensure the largest employers are up to date for year-end (Leicester City Council and DMU). On a positive note, Covid-19 has not caused further delays to the project. There are now approximately 32,000 active members data being posted monthly covering 109 employers.
27. The Pensions Manager is preparing a change to the I-Connect reporting process to include hour changes to assist with the McCloud remedy. This change is necessary for the McCloud remedy, but will impact on the employers. This may require the Pensions Manager to relax the Fund’s employer deadline of the 31 March 2021, for all employers to be live on I-Connect.

Covid -19 Update

28. There have been several implications for Pensions due to Covid-19. The Pensions Manager provided an informal update to Board Members on the 3 June 2020. Since then, a few areas have developed further. Some of these are referred elsewhere in the report, but the Pensions Manager has summarised the key points as follows;
29. **Home Working** - The Pension Section moved to home working in week one of CV19 and this has continued to date. There are two people in County Hall full time. This is their choice and is supported by the Pensions Manager. They deal with incoming post, scanning and indexing all the post, they collate all colleagues printing and distribute all scheme members letters. Without them the Section would have really struggled to maintain the service. If colleagues have a personal need to return to County Hall, the Pensions Manager looks at these cases on merit. All colleagues that do return to County Hall have to complete a risk assessment beforehand with their Team Manager.
30. **Key Performance Indicators** -The Section has maintained high standard of service throughout CV19. The most problematic issue encountered revolves around checking at Assistant Team Manager level. Checking at this level is taking longer at home. Additional temporary resource has been provided to assist with checking, but the Pensions Manager is working through longer term plans to resolve this.
31. **Death Numbers** - The Pension Section saw an increase in deaths of pensioners, but these now appear to be almost back to pre Covid-19 numbers, and hopefully these will now remain stable.
32. **Employer Delays Processing Ill Health Retirements** - Some employers have experienced delays with their Occupational Health Doctors, processing ill health retirements. The Pensions Manager is aware of a very small number of cases where the scheme member has died in service, before their ill health retirement could be processed. The Pensions Manager is taking a sympathetic approach and will look at each case on its own merits.
33. **Market Fluctuations** - The markets experienced a fall at the start of Covid-19 but appear to be recovering. There remains long term financial uncertainty as the Country

moves out of lockdown, but it is important to note, Pension Fund investments remain long term vehicles and the Fund has experienced falls before.

34. **Employers Requesting Contribution Breaks** - The Pensions Manager is pleased to report no Fund employer has requested a contribution break which is very encouraging. Officers are working with employers who may be hardest hit in terms of their future funding plans due to Covid-19.
35. **Furlough** - Some employees at some employers have been furloughed but almost all of these are on 100% of pay, therefore there are no implications to their pension benefits. For the small number of staff furloughed on 80% of pay, scheme members can pay extra contributions to reduce the impact.
36. **Transfers Out** - As mentioned earlier in the report, transfers out are being monitored due to expected increases, as members try to cash in their pensions to generate income. Additionally, The Pensions Regulator (TPR) has warned about increased scam activity during Covid-19 and the Pensions Manager has implemented changes to the documentation and transfer out process to help negate this wherever possible.
37. **Increased Requests for Preserved Benefits from age 55** - The Pension Section has experienced a greater number of enquiries from deferred members age 55 and over, requesting payment of their deferred benefits early. It is expected this will continue as the Country moves out of lockdown and into the expected recession.
38. **Review of the Section** - The Pensions Manager is looking at proposed changes to the Pension Section structure to assist with home working and especially checking, McCloud, immediate payments and dealing with the increased requests for financial information from members.

Reducing Employer Risk and Outstanding Transfer of Undertakings Protection of Employment (TUPE)

39. As part of the valuation the Pension Manager has been assessing the ongoing employer risk to the Fund. The Pension Fund usually required a full bond to be in place for TUPE transfers that took place prior to 1 April 2019. This allows the Pension Fund to claim the bond value from the bond provider should the contractor fail to make payment of their pension costs to the Pension Fund.
40. Since the 1 April 2019 with the introduction of pass-through, the need for a full bond has been negated because much of the pension liability moves back to the outsourcing employer (the letting employer) at the end of the contract. This has significantly reduced the bond value needed by the Fund as security, as there is only now a requirement for a capital cost bond to cover the pension strain for the members age 55 or over, if they are made redundant and entitled to immediate payment of their pension. In some pass-through cases no bond is required.
41. Officers monitor the bond values and the contract dates, working closely with the employers to maintain the required security, but unfortunately some employers do not maintain the bonds and allow these to lapse. Officers continue to work hard to reintroduce bonds as part of the overall employer risk scoring for the valuation and to protect the Fund.
42. The Fund employers are regularly reminded to contact the Pensions Manager as quickly as possible if they are considering TUPE transfers out. They are made aware all pension issues should be resolved before the staff transfer. As at the 17 July 2020, cases outstanding are detailed in the tables below.

Bonds Outstanding						
Pre April 2019 or pass-through	Letting employer	Contractor	Full or Capital Cost Bond	Bond value and provisional end date	Comments	
Pre April 2019	City Council	Aspens (Crown Hills)	Full	£160,000 – 31/12/2023	Aspens received the documents for signature in September 2019. The Fund has been unable to make any progress with Aspens.	
Pre April 2019	Mowbray Education Trust	Caterlink	Full	£59,600 – 31/7/2021	Caterlink received the documents for signature in November 2019. The Fund has been unable to make any progress with Caterlink.	

Admission Agreement Outstanding (some also have bonds)						
Pre April 2019 or pass-through	Letting employer	Contractor	Full or Capital Cost Bond	Bond value and end date	Employee informed of the delay	Comments
Pass-through – date of transfer 1 September 2019	Beacon Academy	Cleantec	Capital Cost	£33,000 – to the end of the contract on 31 March 2021	Yes	<p>Admission agreement and bond outstanding since August 2019</p> <p>Everything is complete from the Fund and Cleantec.</p> <p>Officers are only awaiting confirmation of completion from Beacon Academy.</p> <p>This is continually being chased by Officers.</p>
Pass-through – date of transfer 1 September 2019	Beacon Academy	Mellors catering	Capital Cost	£22,000 to the end of the contract. The Fund is awaiting clarity of the contract end date from Beacon Academy	Yes	<p>Admission agreement and bond outstanding since August 2019</p> <p>Mellors continue to cause significant delays.</p> <p>Pensions Manager escalated this within Beacon Acad in March 2020, so they could help Officers resolve this with Mellors.</p> <p>Officers continue to try and resolve this, without success.</p>

Pass through 1 May 2020	Mowbray Education Trust	Aspens	Capital Cost	N/A	No but remains under review	Legal Services arranging signature of Admission Agreement
Pass through 1 January 2020	Hinckley & JCC Academy	Caterlink	Capital Cost	Not known at this stage	No	Academy have been reluctant to provide the Fund with details and initially hinted the contract would not transfer. The Fund has now established it has transferred and has requested details from both parties to establish the type of transfer (pass- through or not).
Pass through 4 April 2020	David Ross Education Trust	Caterlink	Capital Cost	Not known at this stage.	No	This is a second stage transfer from Chartwells. The Fund is awaiting the pass-through form and list of members as at July 2020

43. Officers are in regular contact with the employers to ensure all outstanding agreements and bonds are completed as quickly as possible. This continues to be regularly monitored.

Recommendation

44. It is recommended the Board notes all areas of the report.

Equality and Human Rights Implications

45. None specific

Appendices

Appendix A – Key Performance Indicators April to June 2020

Appendix B – Hymans Briefing note on Government's McCloud Consultation

Background Papers

Government Consultation on McCloud remedy

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/901173/Condoc - amendments to LGPS underpin - FOR PUBLICATION.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/901173/Condoc_-_amendments_to_LGPS_underpin_-_FOR_PUBLICATION.pdf)

Government's Response to Public Sector Exit Payments (£95,000 exit cap)

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/902087/Public_sector_exit_payments_Consultation_response.pdf

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APPENDIX A

Quarter - April to June 2020								
Business Process Perspective	Target	This Quarter	Previous quarter	Customer Perspective - Feedback	Target	This Quarter	Previous Quarter	
Retirement Benefits notified to members within 10 working days of paperwork received	92%	94%	▲	94%	Establish members understanding of info provided - rated at least mainly ok or clear	95%	100%* ▲	100%
Pension payments made within 10 working days of receiving election	95%	94%	▶	95%	Experience of dealing with Section - rated at least good or excellent	95%	94%* ▶	92%
Death benefits/payments sent to dependant within 10 working days of notification	90%	95%	▲	95%	Establish members thoughts on the amount of info provided - rated as about right	92%	100%* ▲	98%
					Establish the way members are treated - rated as polite or extremely polite	97%	98%* ▲	97%
					Email response - understandable	95%	94% ▶	93%
Good or better than target	▲				Email response - content detail	92%	95% ▲	93%
Close to target	▶				Email response - timeliness	92%	96% ▲	93%
Below target	▼							

*Data for these four KPIs was briefly suspended in April due to process changes required for home working.