



**LOCAL PENSION BOARD - 17 AUGUST 2022**

**REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

**MCCLLOUD REMEDY REPORT**

**Purpose of the Report**

1. To provide an update to the board regarding progress in respect of preparations for the implementation of the 'McCloud' remedy for Leicestershire County Council Pension Fund.

**Background**

2. When the government reformed public service pension schemes in 2014 and 2015 they introduced protections for older members. In December 2018, the Court of Appeal ruled that younger members of the Judges' and Firefighters' Pension Schemes had been discriminated against because the protections do not apply to them.

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 Judgement' after a member of the Judges' Pension Scheme involved in the case.

When the LGPS changed from a final salary to a career average pension scheme in 2014, members who were within ten years of their Normal Pension Age (usually 65) on 1<sup>st</sup> April 2012 were provided with a protection called the 'underpin'. When a protected member takes their pension, the benefits payable under the career average and final salary schemes are compared and the higher amount is paid.

The government will need to provide younger members with a protection equal to the underpin protection provided to older members in order to remove the discrimination.

Whilst the ruling is not expected to affect the amount of many members' pension benefits, the process of collating and uploading the data to identify these cases, much of it manual work, is likely to be extremely time consuming.

The legislation that introduces the McCloud remedy is expected to come into force from 1<sup>st</sup> October 2023 and will be retrospectively applied back to 1<sup>st</sup> April 2014 in England and Wales.

### **Actions Taken**

3. When the new scheme rules were introduced in 2014, Officers decided that there would no longer be an automatic need to gather service data, i.e. hours changes and any breaks in service, for example periods of unpaid maternity leave, and instead would only request this information in the event that there was a risk that an underpin calculation would need to be performed. For cases without an underpin, hours and service breaks in respect of membership after 1<sup>st</sup> April 2014 would not impact on pension benefits.

However, the judgement meant that it would now be necessary to gather all this information retrospectively, and Officers issued a bulletin to employers on 1<sup>st</sup> September 2020 instructing them that they would need to provide details of any changes to hours or breaks in service during the period 1<sup>st</sup> April 2014 to 31<sup>st</sup> March 2022, split over three submissions. The initial report in respect of the period April 2014 to March 2020 was due to be submitted by 31<sup>st</sup> March 2021, with the following two tax years to be provided at a later date. The Scheme Advisory Board had produced standard templates to be used for these exercises.

Officers decided to only request details of breaks for periods of 30 days or more. This was agreed by the Pensions Manager. It is our view that breaks will generally have minimal effect on establishing an entitlement to an underpin and the recording of numerous breaks of a few days will only add to an already onerous exercise.

Data has been received for:

1<sup>st</sup> April 2014 to 31<sup>st</sup> March 2020: 136 employers out of a total 200.

1<sup>st</sup> April 2020 to 31<sup>st</sup> March 2021: 119 employers out of a total 200.

It is likely that many of the employers that have not returned data will have no scheme members that are deemed in scope for this exercise. This will be established as part of the exercise to collect the remaining data. It will also be the case that employers will not be able to provide all the missing data, because they may no longer exist, because of a change in payroll providers, or possibly for other reasons.

Action will shortly begin to contact those employers where data is expected to be provided individually for an update.

Data received in respect of 1<sup>st</sup> April 2021 to 31<sup>st</sup> March 2022 is currently being collated and an update on this will appear in a subsequent report.

Initial testing of data loading highlighted an error in the interface tool provided by our system suppliers (Heywood) that caused existing data to be

overwritten. A small number of records were affected by this and were all corrected.

A meeting was held with the system supplier and changes to the interface tool were made. Subsequent testing was positive and demonstrated that the issue had been resolved. However, whilst this was being investigated, the project was put on hold.

Following on from the discussions regarding the issue with the interface tool, Heywood developed a 'McCloud Dashboard' that allowed an assessment of the integrity of the data prior to loading. This means that issues such as overlapping dates, or incomplete data entries were highlighted prior to being uploaded. Use of this dashboard has been incorporated into our process and is currently being tested. Once testing is complete, the loading of data can begin, initially in small batches.

### **Risks/Issues**

4. It is unclear how long this project will take. Officers are expecting that the tools provided to automate the loading of the data will only be effective for updating some records, i.e. where only a single employment is held on Altair. Where multiple records are held it will be unlikely that there will be a unique field to enable automated matching and so a large amount of manual intervention will be required, meaning increased resource will be required.

There are areas of this exercise where national guidance is still awaited. These include instructions how to treat cases where the employer states that data cannot be provided, and also whether members with more than one record who had previously elected to keep those records separate will have a further option to join those records together. If that option is made available then further resource will be required to deal with the extra work that will be generated.

An initial action plan has been created and is available in the appendix. This will remain under review, and the Local Pension Board will be kept updated on progress towards implementation of the remedy, and any further national developments.

Given the size, complexity and risk of this project an Internal Audit exercise was undertaken and signed off in June 2022. The main recommendations raised were:

<b>Recommendations</b>	<b>Actions Taken / To Take</b>
Consider planning resources for scenarios with or without automated solution	Resources continue to be monitored as the project progresses. It has been expected throughout the project that there will be a significant amount of manual adjustments to make to member records and this will be factored into planning.
Discuss availability of any	An additional member of staff has been

internal IT resource to help utilise the automated solution	appointed to boost IT resource, initially on a casual basis, but as the project progresses this will be reviewed
Document all activities required in an action plan	Action plan created and the initial version is available in the appendix of this report. This will be reviewed regularly as the project continues.
Periodic review of access of Pensions 'Sharepoint' site to maintain integrity of data	The Sharepoint site is limited to Pensions staff only and is reviewed every time a member of staff joins or leaves the section
Any local decisions regarding how to address the requirements of the project should be formally documented and submitted to senior management for review and agreement.	Local decision around collating breaks in service is mentioned in this report.
Establish a procedure for addressing any instances of missing data or non-receipt of requested information from employers	Reminder was sent to employers regarding the final deadline and also to provide any outstanding data in employer bulletin 8 dated 22 <sup>nd</sup> June 2022. Action will shortly begin to contact employers individually for an update.  Awaiting national guidance where employers are unable to provide some or all required data.
Introduce validation routines to provide assurance over the integrity of all data received	A data validation dashboard has been created in Altair's 'Insights' reporting tool and all received data will be fed through this to establish any issues with data. However, employers have a responsibility to ensure that their data is accurate and in the correct format.
Maintain regular formal contact with Systems supplier	Regular contact was made with Heywood when initial issues with interface tool were identified and throughout the creation and testing of the revised version.  This was also the case when the Insights Dashboard was being developed and tested.  McCloud is a regular topic in meetings with the Heywood Client Relationship Manager and issues are raised in this forum.

Officers are also preparing for a national 'Pensions Dashboard' exercise which will enable individuals to access all of their pensions information from all pension schemes, online in one place. This will require data to be cleansed and prompt receipt of data from employers to enable compliance with the requirements of the exercise. It is also likely to require the same personnel that have been assigned to the McCloud project. At this stage, work has not begun on this exercise, but it could be the case in the future that this will impact on the progress of the McCloud project.

The McCloud project has already been added to the Fund Risk Register (item 16), which is included elsewhere on today's agenda.

### **Recommendation**

5. It is recommended that the Board notes all areas of the report.

6. **Equality and Human Rights Implications**

None specific

7. **Appendix**

Action Plan

8. **Officers to Contact**

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