

APPENDIX 1 to Pensions Committee Report:

JUSTIFICATION FOR ADDITIONAL SPEND REQUIRED FOR:

- 1) THE RESTRUCTURE OF PENSION BENEFITS SECTION AND**
- 2) PURCHASE OF NEW MIDDLEWARE SOFTWARE [AUTO ENROLMENT (“AE”)]**

1. INTRODUCTION

Major changes are set to take place following government reviews of pension provision in the United Kingdom and a separate review by Lord Hutton on all public sector pensions including the local government scheme. A statutory requirement for virtually all employers to enrol staff over a certain age and minimum salary in a pension arrangement comes in from this October. Public sector schemes are set to change to Career Average in place of Final Salary for future service which will introduce a further tier of calculation and complexity. For LGPS this is a year earlier than for the other public sector schemes. The employee bandings for pension contributions which already exist will become more difficult for employers to apply because all pay will be pensionable and employers already have difficulty in ensuring correct contribution rates are applied. There will be significant additional requirements to maintain records for members who have opted out and extra reporting to the Pensions Regulator on this. Data reporting to CLG and GAD for statistical national purposes make it important that member data is accurate and up to date

This Report focuses on the impacts of the major changes in LGPS 2014 and auto enrolment and explains how the Fund proposes to change the way it is currently working to meet the challenges, which involves restructuring the Pension Benefits section.

This Report includes in Appendix 1 a costing of the staff under the proposed new structure and details the additional spend required to put the APF in a position to be able to cope with the changes mention above. Offset against this spend are expected savings which will come through electronic delivery over the next few years. The incidence of the additional spend is included in Appendix 2.

This change is against a backdrop of an increase in the number, type and geographical dispersion of employers at an exponential rate over the last 2 years following outsourcing of services by local authorities and the introduction of the option for schools to convert to academies and to outsource their payroll services. This has significantly increased the pressure on the Pensions Service to be able to continue to provide a high quality service.

2. BACKGROUND

The last administration restructure strengthened the communications, technical and employer relationship functions to support the implementation of changes and impact on the employers following the 2008 LGPS changes. Whilst demands in this area have grown unabated, the Fund and employers now face a significantly different operational challenge – the focus on data quality processing and control.

The Fund’s *Pensions Administration Strategy* published in April 2011 aimed to pre-empt some of this by forcing employers down an electronic route but this has

only received a lukewarm response. AE has forced the issue and the Fund is now working with the unitaries and other employers to put in place a single electronic middleware solution.

Even though faced with increasingly complex administration due to growth and diversity of employers and their payroll arrangements, officers have waited until the implications of the new 2014 Local Government Pension Scheme (LGPS) became clearer and the impacts of *auto enrolment* were understood, before putting forward this proposal.

3. WHAT IS CHANGING THAT REQUIRES THE PENSION SERVICE TO NEED TO RESTRUCTURE AND PURCHASE EXTRA SOFTWARE?

1. **New LGPS Scheme**) from April 2014
2. **Auto Enrolment** starting for employers in the Fund from early 2013
3. Legal requirement for **minimum data quality standards**

4. CHANGES IN 3. IN MORE DETAIL

1. NEW LGPS SCHEME FROM APRIL 2014

The 2014 LGPS Scheme will mean far more complex calculations (3-part) with Career Average to be introduced for future service from 2014 requiring 3 elements to be calculated and explained to members. Two separate salary figures will need to be sent by employers and posted to records. The proposed 50/50 Scheme option (half rate pension for half rate contribution) will add a further layer of complication. The Pensions Section will need to be more streamlined to cope with these major changes.

The 2014 LGPS Scheme implementation will require system changes, a significant communication exercise including new literature, training of own and employer staff, all whilst at the same time the 3-year Fund actuarial valuation is taking place from April next year.

2. AUTO ENROLMENT / NEW MIDDLEWARE SOFTWARE

New legal compliance from October 2012 makes all employers responsible for assessing their workforce and where appropriate enrolling all “eligible” employees automatically into a qualifying pension fund, which for most is the LGPS. To achieve this, employers will need help to ensure they comply. All but the smallest of employers will require an electronic monitoring system to be put in place to successfully achieve compliance. Failure to comply can result in large fines for employers. A “middleware” solution involving data extracts from employer payrolls will assist employers to assess their workforce to establish and be informed when they must be auto enrolled.

Avon Pension Fund (“APF”) is encouraging employers to use such middleware and it transpires that a solution for employers is available which will have the added bonus of providing an interface between those employers using it and the APF which will enable **automatic monthly electronic updating of starters and member hour changes** from payroll data extracts. This would be a major advancement for the Fund. It would smooth the change process and avoid the normal large number of data errors and omissions revealed following the reconciliation of member records after the annual year-end update information from employers. Also monthly updating of pay and contributions is likely to be an on-going requirement for the new *LGPS 2014 Career Average* scheme.

Each employer and the Avon Pension Fund needs to separately enter into a contract for the services to be provided. The annual cost for the Fund would be £34,500, with a proportion of the first payment relating to the current financial year; provision had not been made for this in the 2012/13 budget and authority for the additional spend is being sought from the Committee.

For this to work effectively it will be necessary to align the data held on members in their employer payroll systems with that held by on APF's **Altair** database. A significant data cleansing/matching exercise is required for current members to enable the new middleware to be fully effective and to avoid a large number of rejected update entries each month. APF need to have resource in place to match membership records for on-going monthly updating for the employers who have taken the product to ensure smooth and effective updating of member records going forward.

Data Management and Quality ("DMQ") team

Given the need to take control of member data it is proposed to establish a separate new **Data Management & Quality Team** from October 2012 to manage all aspects of receipt processing and data output, control, quality and training. Its prime function will be to data cleanse records so that the Pension Benefits Team can process cases more quickly without having to spend time on errors and omissions.

Much of the pension benefit administrators time is currently taken up in having to cleanse a member's record (or in the case of multiple employments **2 or more records**), before they can carry out a benefit calculation. The new DMQ team will help to streamline the process and improve the Fund's efficiency. Most of the DMQ team will come from the existing resources in the 2 benefit teams. There is however the intention to take on 2.5 additional staff and 2 apprentices for a 2-year period, at least one of whom will work in the DQM team. These have been costed into **APPENDIX 2A** of the proposal and represent just under a five percentage increase in the overall 2012/13 Avon Pension Fund Administration Budget. The new structure is aimed to be in place from October and some additional salary costs for the new arrangements are needed from then.

The required level of resource will be kept under review and it is expected that this will be managed down in time through natural wastage as the member data quality is improved by the work of the new DMQ team and the benefits of monthly electronic data updating through the middleware software takes effect.

The number in each benefits team will be reduced to reflect the less time required to process cases with cleaner data. Introduction of **Auto Tasking** a Heywood's facility at no extra cost to the Fund will make best use of skills and strengths of benefits staff and maximising staff efficiency by directing case work to those staff who have availability and the expertise to perform that task.

Increase in staffing - building resilience to staffing turnover

The proposal is to increase the current benefits permanent establishment from 17.5 to 20 staff and in addition to take on 2 apprentices for 2 years. **Appendix 2A** details annual salary and on-costs for the current and proposed new

structure. With a number of experienced pensions staff due to retire in the next few years, this is a precautionary measure which will build resilience to expected staff turnover.

Appendix 2B shows for the 2012/13 budget and for 2013/4 budget the estimated additional staff and other associated costs and their incidence which the restructure and other necessary expenditure to meet the challenges of implementing the new LGPS 2014 Scheme and auto enrolment will require (see below). An estimated additional £50,250 will be required in the current financial year and £150,000 in 2013/14.

Areas where there will be extra WORK for the Fund

Auto Enrolment will require a significant communications exercise by employers with their employees; training will be required for employers and Fund staff on the 2014 LGPS Scheme; systems upgrades including rigorous testing and an increase in output in processing many more refunds for short-term opters out will require additional resource.

Areas where there will be extra COSTS for the Fund

LGPS 2014: Communications with members on the new LGPS 2014 and an intensive member awareness campaign about the changes and what they will mean for members will inevitably result in extraordinary administration costs. Additional material will be sent to members around February 2013 when the new regulations on the 2014 LGPS are published, followed up by a series of information sessions for both members and employers during 2013 at employer venues mainly around the old Avon area. There will be additional venue costs and significant calls on staff resource. With over 30,000 active members and in excess of 150 employers in the Fund some of whom are based far from the Avon area, this will be an exercise of mammoth proportions and will involve significant one-off costs outside the normal annual budget. Much of these extra costs are however already budgeted for in the 3-year Service Plan.

An additional software development cost in the region of a one-off £20,000 will be needed in 2013/14 for Heywood to amend its Altair pensions software to incorporate a *Career Average* Section in the LGPS 2014 Scheme.

3. MINIMUM DATA QUALITY STANDARD – a new legal requirement

It is fully expected that the Pensions Regulator's powers in the private sector to set minimum standards for member data quality and control will be extended to the public sector, although it is not yet known when this will happen, APF need to "get its house in order" as soon as it can. This will include clearing *historic* data errors. Non-compliance could result in significant fines for the Fund.

5. WHERE IS AVON PENSION FUND NOW?

The Fund is in good shape. However the proposed new structure in Benefits is vital if the Fund is to be ready and equipped to meet and overcome the challenges facing us over the next few years.

The structural changes already approved by Committee in the 2012 Service Plan and now in place to strengthen the investments section will release the Employer Relationship Manager to focus more on communications. The recently re-built

website will form a good platform for much of the member communications and the recently developed dedicated employer website will ensure employers are kept up to date on all changes and how they are affected. An on-going *Data Cleanse Project* is already in place and the monitoring arrangements are bringing the employers data management role more into focus. Some changes will be needed to the Systems Administration team and Pension Benefits team to dovetail into and work effectively with the new *Data Quality & Performance Team*.

6. OFFSET COSTS & EFFICIENCY SAVINGS BY “GOING ELECTRONIC”

Although the changes outlined in this report will mean additional spend the Fund are expected to achieve offset costs & efficiency savings elsewhere. The Fund is moving towards electronic delivery of information to members and electronic receipt of change information from Fund employers both of which will result in significant cost and efficiency savings...The exact time frame for moving entirely to electronic delivery of information to members is not yet finalised. It is however, estimated that when it is fully achieved, annual savings in excess of £50,000 are achievable. The transition will be handled sympathetically and those members who wish to continue to receive paper copies will be given several opportunities to do so. However, from other pension fund's experience this is not expected to be a very significant number. In addition the streamlining of the receipt of employer information through *middleware* for larger employers and *Employer Self Service* for smaller ones will significantly improve the process efficiency of the Service. Progress in both of these areas will be reported to the Committee as appropriate.

It needs to be appreciated however that our customers, both members and employers, are all in transition when it comes to the use of electronic media. We are putting in the resources to achieve electronic service delivery as quickly as possible.

7. CONCLUSION

The changes outlined in this Report and the additional spend required are vital if the Pension Service is to be properly equipped to continue to deliver a high-class service to all its stakeholders. Savings from electronic delivery will help to offset this additional expenditure in future years.

The proposed new structure with the addition of a dedicated Data Quality and Management team and Auto task Management for the benefits team will streamline processes and make best use of existing resources.

8. COMMITTEE RECOMMENDATION

The Committee is asked to approve the new benefits section structure and the purchase of the additional *middleware* software and to authorise the additional spend outlined herein.

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