Blue Light Pensions Newsletter #4

In this newsletter I want to turn the spotlight on to pension administration, a subject that hitherto has not received the attention that it has deserved. Administration is the very heartbeat of all pension schemes and in many organisations it has lacked investment and focus. For many years not much changed in the world of pensions and then in 2006 the new schemes were introduced, after which it was assumed (and perhaps hoped) that everything would quickly 'return to normal'. But then along came the Hutton Commission which resulted in changes to all the public service pension schemes and to many it seems that pensions have been continually the subject of new rules and procedures ever since. And then there are the reducing tax allowances and the new pension boards….

A key feature of the new pension governance arrangements which came in to effect on 1 April was a focus on administration. Specifically pension boards are expected to assist scheme managers with their responsibilities for overseeing the administration of the public service pension schemes. The requirements are contained within the 2013 Public Service Pensions Act which relate to the publication of data, benefit statements, internal disputes and communications (discussed in a previous newsletter). This was a determined reflection of the Hutton Report's call to improve pension administration. It is perhaps unusual for an Act of Parliament to specifically legislate on administration and consequently it is recommended that Readers are aware of the Act and familiarise themselves with what is says about administration. Additionally, The Pensions Regulator has issued a Code of Practice (No 14) which contains detail of what they expect from schemes with regards to the good administration of pensions, such as the management of risk, record keeping, data reviews and improvement plans, publishing data and pension board information, benefit statements and the handling of complaints.

So how do the new pension boards begin to tackle a subject as diverse as administration? The following are some thoughts for you to consider:

Boards need to understand how their scheme is administered and ask questions of the pensions manager, or the provider, such as:

- How much are you spending on administration per member per year? What does this include? e.g. staff wages, building rent, heat and light, legal advice, printing etc. And importantly what service are employers and members receiving for this money?
- Does your administrator produce a regular newsletter for members? If yes, how often and what subjects does it cover?
- Do you communicate with your deferred members? If so how? (Do you even have their addresses?)
- What does the annual statement sent to members look like – i.e. what information does it contain? Does it provide forecasts of pensions? Does it include state benefits?
- Does the scheme have a dedicated web-site and benefits calculator?
- What procedures are in place to deal with disputes and complaints?
- Who handles members' queries?
- Is there a risk register and if so, what are the top 10 risks?

One way this can be achieved is for the Board to request details from their pension administrator on a regular basis and particularly ahead of Board meetings. A suggested update might include:

- Number of new members this year/month
- Number of retirements/deaths
- Number of scheme leavers and opt-outs

- Number of queries, categorised by type
- Number of formal complaints together with details of any decisions made

Other questions the Board needs to ask are around pensions data, which is arguably the 'Achilles Heel' of all pension funds and it is an unusual and perhaps lucky scheme that has data that is 100% reliable. Most schemes rely on a mixture of historic paper records and a collection of computerised records, which may or may not be correct! Now that schemes are required to record annual earnings data to populate CARE accounts for members, the need for accurate and accessible records with secure storage (records may be required for up to 100 years), is more important than ever. Boards will want to be reassured that everything is being done to ensure that members' pension savings are being accurately recorded. Only then will Scheme managers be able to ensure that the scheme members receive the correct pensions when they become payable.

One important element of the management of pension data is cleansing and it is fair to say that some schemes still struggle to secure investment in this aspect of their administration, perhaps because it is not considered to be a frontline service (though it is very much this for its pensioners) and consequently many schemes suffer from poor systems with resultant data quality issues.

But before you clean your data you need to know where the problems lay. For your information I attach details of KPMG's data analytics tool, known as 'Klean'. This proprietary IT technology has helped numerous pension schemes analyse their data, highlight areas of weakness or non-compliance. As a result we have helped many schemes to improve the quality of their data and thus the service they deliver.

Post Script: I am pleased to announce that I have recently been appointed as the independent Chair of the Metropolitan Police Pension Board, so hopefully will be practising what I preach!

Kind regards

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