

SOUTH YORKSHIRE PENSIONS AUTHORITY

1st October 2015

Annual Benefit Statements

1. Purpose of the Report

To advise members about the failure to meet the Statutory deadline for the issue of Annual Benefit Statements to active and deferred members.

2. Recommendations

Members are invited to comment on the contents of the report

3. Statutory Requirements

- 3.1 Regulation 89 of the Local Government Pension Scheme Regulations 2013 requires an annual benefit statement to be issued to active and deferred benefit members within five months of the end of the scheme year to which it relates. The end of the scheme year is 31st March which therefore means that statements must be issued by 31st August.
- 3.2 In April 2015 the Pensions Regulator issued Code of Practice no. 14 on Governance and Administration of Public Service Pension Schemes. The primary objective of the code of practice is to protect the benefits of pension scheme members and requires scheme managers and those charged with governance to comply with a number of principles set out in the code.

4. Annual Benefit Statement Production

- 4.1 The annual benefit statement process for active members starts at the year-end and compliance with the Statutory deadline is heavily dependent on the scheme employers supplying a balanced year-end file containing details of the contributions paid and pensionable earnings of all their members for the year in question within a reasonable timescale after the end of the year. We have an SLA with all employers requiring them to issue a balanced file by the end of May but Members will be aware that with over three hundred employers not all employers manage to meet the deadline.
- 4.2 Once a balanced year-end file has been received from an employer the contributions paid by the member have to be posted to their pension record along with their pensionable earnings. This part of the procedure identifies new starters and leavers that the employer has not told us about along with changes in the amount of pay that might indicate that

a member has changed their contractual hours which again we haven't been informed of. These type of issues need to be queried with the employer before a statement can be produced.

- 4.3 Following the introduction of the CARE in LGPS 2014 the annual benefit statement becomes a much more significant document in that it is no longer just a forecast of the potential benefits from the scheme. It is a statement of the actual benefits earned in the year in question. Once contributions and pay have been reconciled the next stage of the procedure is to calculate the CARE pension earned in the year and then apply the Statutory revaluation in accordance with HM Treasury revaluation orders.
- 4.4 The vast majority of members have protected final salary by virtue of having membership prior to 1st April 2014. The annual benefit statement for these members therefore has a forecast element based on the estimated final salary pay to the 31st March (this can be a different figure to CARE pay as they have different definitions).
- 4.5 Having calculated the CARE Pension and Final Salary forecast the next stage is to produce the annual benefit statement data which also includes an assessment for tax purposes of each members position in relation to the annual allowance and lifetime allowance.
- 4.6 Once produced the statement is subject to testing and application of conditional logic before being sent off to the printer for final production and despatch.
- 4.7 The annual benefit statement for deferred members is much more straightforward and simply requires the application of the percentage increase in consumer prices (CPI).

5. The 2015 Annual Benefit Statement Production Experience

- 5.1 The Statutory deadline for the issue of statements is very challenging. In an ordinary year even if all employers met the SLA deadline of 31st May, which they don't, that gives us just three months to complete the procedure described above. However 2015 is an extraordinary year in that it is the first year of CARE and the first time we have had to produce annual benefit statements using our new system – UPM.
- 5.2 Nevertheless we started out with the intention of meeting the statutory deadline and estimated we could do this for at least 85% of members. The statement was scheduled to be issued with the Autumn newsletter during the last week of August. The preparation started at the beginning of 2015 with the issue of the revised contribution return template to employers followed by guidance with regard to its completion.

- 5.3 Having issued the template to the employers the next task was to test the contribution posting and reconciliation process within UPM. Unfortunately the process was issued late and contained errors and as a result of LGPS 2014 was brand new and largely untested. A significant amount of time and effort was then spent testing the process of updating members contribution records, developing internal processes for dealing with queries and training staff. Towards the end of July we were in a position to roll out the new process and although time was tight and we had no chance of sending 100% of active member statements we felt that we might be able to issue over 75% of them.
- 5.4 As soon as we were in a position to produce the statements we contacted the company we had selected to print them only to be informed that it was impossible for them to meet the 31st August deadline due to commitments they had made to other LGPS clients also wishing to have their statements issued by 31st August. Although the annual benefit statements to deferred were ready to go this meant that they too would have to be delayed (the deferred statement is much easier to produce and had been held back in order to be sent with the autumn newsletter to maximise savings on postage).
- 5.5 Around this time LGPS pension funds in a similar position to ourselves were starting to ask questions about the implications of missing the Statutory deadline for the issue of the annual benefit statement. This was picked up nationally by the LGA who ran a survey that indicated most funds were not able to meet the deadline and they undertook to approach the Pensions Regulator on behalf of the LGPS.
- 5.6 The Pensions Regulator was very grateful for the survey which provided the basis for assessing the range and pattern of compliance and would like to see it repeated in future. However it was made clear that any cases of a material breach can be reported only by the scheme manager to whom that breach relates meaning that each administering authority should therefore consider, based on the guidance set out in the 'Reporting breaches of the law' section of the Regulator's code of practice, if their situation constitutes a breach likely to be 'of material significance'. Helpfully though the Regulator pointed out that administering authorities may wish to take into account the reference to 'teething problems' in paragraph 257 of the code of practice related to the introduction of the new scheme and the new statutory deadline for issuing statements when assessing the materiality of any breach.
- 5.7 Paragraph 257 states *'a breach will not normally be materially significant if it has arisen from an isolated incident, for example resulting from teething problems with a new system or procedure, or from an unusual or unpredictable combination of circumstances'*.

- 5.8 As a result of the guidance from the Pensions Regulator and the fact that our circumstances clearly meet the requirements of Paragraph 257 we are confident that although we have clearly not met the Statutory deadline we do not have to report the breach to the Pensions Regulator on this occasion. However it is clear that this relaxation of the code will not apply next year and therefore we must take steps to ensure that we take appropriate measures to ensure we meet the deadline in future.

6. Current Position

- 6.1 Receiving the Pensions Regulators opinion has relieved the immediate pressure to issue the statements and we have therefore decided to take more time to ensure that the information they contain is accurate. Unlike final salary forecasts the CARE benefit is the actual pension a member has earned in the year and therefore it is worth taking extra time checking the results from UPM.
- 6.2 The new target is to have sent all annual benefit statements by 31st December although we have agreed with the printer that we can send sizeable batches earlier once they are ready to go. We have informed scheme members of the delay on our website.
- 6.3 Unfortunately we have been unable to delay the sending of our autumn newsletter due to the fact that includes time dependant information about our annual fund meeting in October. This has resulted in a loss of the savings we make on postage by not having a joint mailing but this has been unavoidable given the circumstances. However, the annual benefit to deferred members has now been sent along with the autumn newsletter as originally planned.
- 6.4 Although we will be working hard to ensure our processes are fully up to speed for next year we also have to be aware that in order for us to meet the Statutory deadline we need to receive the year-end return from employers in a timely manner. The long term aim is to switch to monthly returns and deal with issues as they occur throughout the year rather all in one go but in the short-term we plan to raise the issue at this year's Employers Forum in November. Of course not all employers attend the forum and therefore we will be also making sure all employers are briefed via EPIC.

7. Implications and risks

Implications

- Financial

Cost of additional postage at 23p per statement issued.

- Legal

There are no legal implications

- Diversity

There are no diversity implications

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Background papers used in the preparation of this report are available for inspection in the Pensions Administration Unit.

Other sources and references: