Benefit Administration – Case for Increasing Resources

This report highlights the causes of a significant increase in workload for the Fund that led to carrying out an administration review with the scheme actuary to gain further efficiencies, improve member outcomes and determine what additional resource will be required to deliver effective administration in the future.

1. <u>Regulatory change</u>

The introduction of the Care scheme was expected to ease the administrative burden however it has done the opposite with subsequent regulatory amendments also contributing to increased workload and complexity:

- Benefits are now more accessible than ever before with various flexible retirement options and active and deferred members now able to take retirement benefits from age 55 without employer's consent
- Unlawful scheme protections will result in thousands of members requiring two different calculations when leaving or retiring for decades to come
- The ongoing challenges around compliance with statutory deadlines for processing benefits and issuing annual benefit and pension saving statements.

Increase in the number of retirements is shown in Appendix 1.

2. <u>Impact of court rulings</u>

The outcome of recent court rulings will add to the administrative burden and further increase workload.

McCloud

The Court of Appeal ruled transitional protections of Pensions Reform gave rise to unlawful age discrimination. Draft regulations were published last year that extended protection to everyone in the scheme on 1 December 2012 however it is now likely that this will be changed to include everyone with final salary benefits prior to 1 April 2015.

Guidance is expected soon with final regulations available next year coming into force from 2023. A project was started to consider the complexity and scale of the work involved given we could potentially have 25,000 members in scope and be faced with 10,000 leaver recalculations. Our starting point was to identify missing data and request this from our employers however this has been put on hold.

Goodwin

Scottish Public Pensions Agency (SPPA) advised last year that regulations will be changed in the future following an employment tribunal that ruled discrimination on grounds of sexual orientation for male spouses of female members with entitlement to survivor benefits prior to 5 December 2005.

Equalisation of GMP's

Following recent discussion with SPPA we will at some point in the future have to equalise GMP's, something that has commenced in the private sector. Before we can consider this, we must complete reconciliation and rectification which includes paying member underpayments however like McCloud this has been put on hold.

3. Impact of increasing workload and pandemic on KPI performance

KPI's are reported quarterly to the Pension Committee in accordance with the pension administration strategy (PAS) and a reduction in performance during 2020/21 has impacted on service provision during difficult times:

	Death	Estimate	Retirals	Deferred	Refund	TV In	TV Out
2020/21	5 days	10 days	10 days	10 days	10 days	10 days	10 days
Quarter 1	66.7%	100.0%	61.9%	79.2%	93.5%	71.4%	51.3%
Quarter 2	57.1%	96.1%	85.6%	74.4%	97.8%	76.5%	55.9%
Quarter 3	69.2%	91.7%	80.3%	65.7%	89.4%	45.5%	21.1%
Quarter 4	90.9%	91.5%	77.2%	28.1%	88.7%	51.7%	15.8%
Annual %	72.1%	94.1%	75.5%	69.4%	92.4%	60.6%	33.0%
2019/20	88.4%	98.1%	95.8%	91.0%	95.1%	84.4%	75.7%
	-16.3%	**-4.0%**	**-20.3%**	**-21.6%**	**-2.7%**	**-23.9%**	**-42.7%**

The overall percentage achieved for all key administration tasks is the lowest ever recorded since the Care scheme was introduced:

Year	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Percentage	94.6%	87.7%	95.1%	95.9%	93.5%	**76.2%**

Increasing workload combined with ongoing home working during the pandemic has resulted in longer processing times evidenced in Appendix 2. This is despite adopting new working practises and following guidance provided by the TPR and the SPPA.

NESPF performance for the year will be reported to Pension Committee in June 2021 and published in the annual report and accounts for 2020/21.

4. Administration review with Mercer

An administration review with the scheme actuary was carried out at the end of 2020 to see what further improvements could be made to make us more efficient and improve service provision.

Review recommendations

The final report contained several recommendations that the Fund want to implement over the next 12 to 18 months however these improvements have been put on hold.

Capacity analysis

Part of the review focused on capacity analysis which would determine the resource required for the Benefit Administration team to deliver going forward.

Mercer finding:

"The Fund is able to produce excellent MI that can capture the number of completed workflow steps and the number newly created workflow steps. This MI effectively represents a comparison of incoming vs outgoing work. Based on the MI provided for the period 01/08/2020 – 31/10/2020, the number of hours required (based on the estimated time allocation) to complete the newly created workflow steps over the period was 2,738 hours. This compared to 2,603 estimated hours for the completion of all workflow steps actually completed throughout the same period. Based on the assumption that the Fund is working at capacity

and carrying a large backlog, this indicates that the incoming work is more than the team can expect to complete based on the same staffing levels and ways of working."

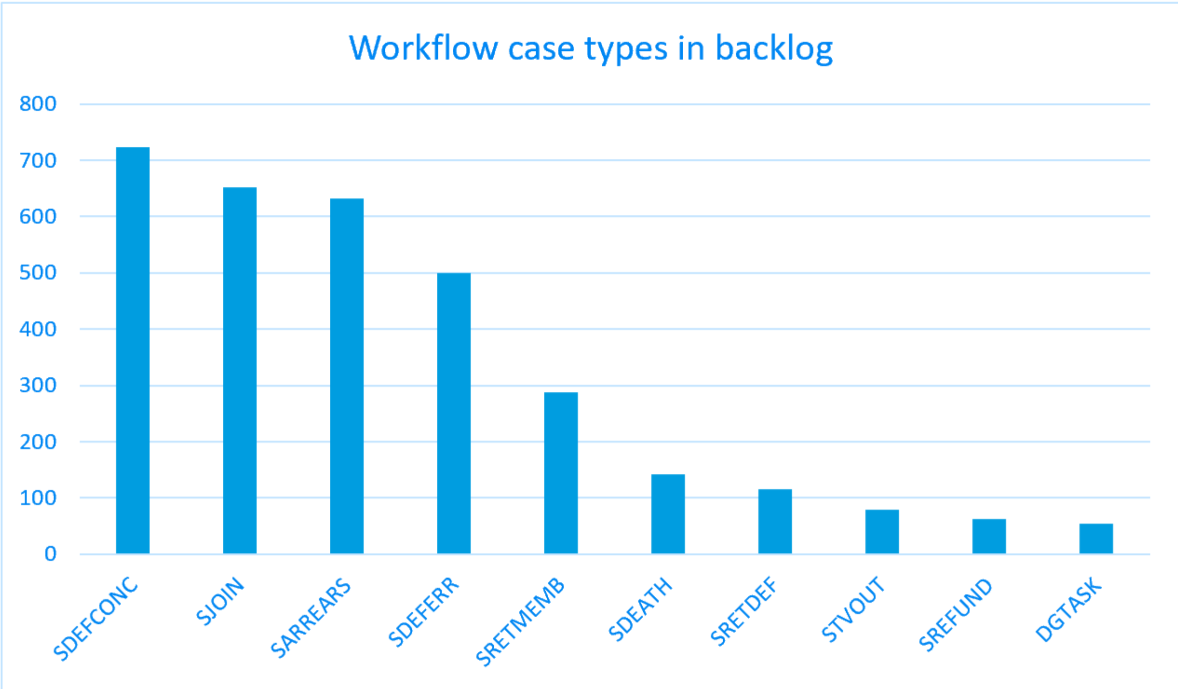
Mercer recommendation:

"The MI and the current backlog indicate that more FTE will be required to effectively manage the incoming work, based on estimated productivity over the 3 month period reviewed. Given the lead-time needed to train new members of staff, members of staff who are competent on Benefits team processes from other teams should be utilised to process backlog cases for a portion of their time each day, until process changes, additional resource or increased automaton can help reduce the backlog of work."

A tool was provided which over several reporting periods consistently identified a requirement for 3 additional officer posts. This finding was reported to Pension Committee in March 2021.

Backlog of casework

Mercer highlighted areas of backlog accumulating at the end of the review period:



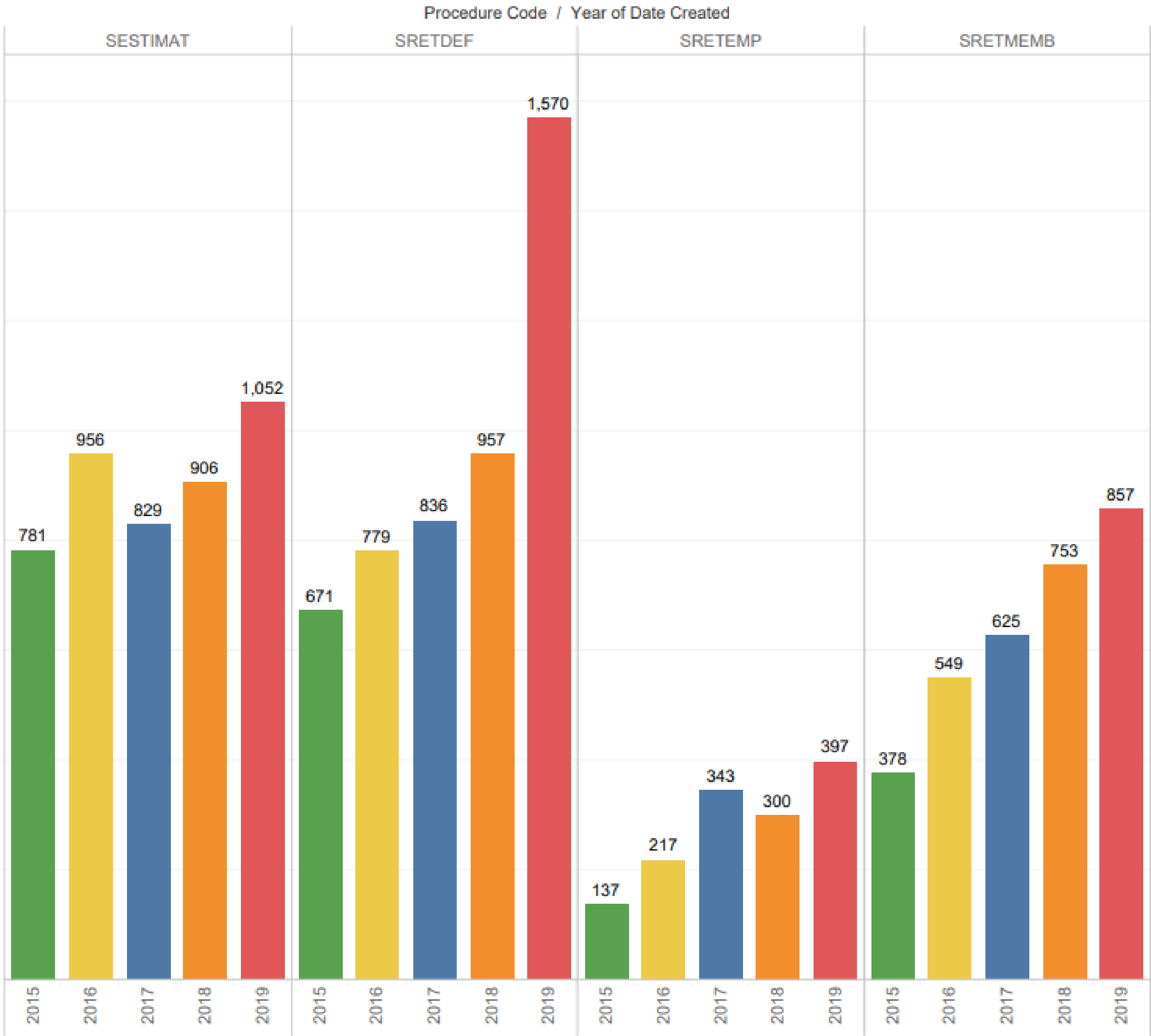
For aggregation cases (joining records) very little have been processed since the report was published with numbers increasing to 885 concurrent (SDEFCONC) and 868 join cases (SJOIN) due for action. Priority is given to processing and paying benefits within statutory timescales however an aggregation backlog results in membership not being accurate which could potentially impact on calculation of employer liabilities.

Arrears payments (SARREARS) due because of revised cessations received from employers have slightly improved however there are still 494 due for action.

Of the remaining cases that are continuing to increase we now have 546 deferred (SDEFERR), 600 retirements (SRETMEMB and SRETDEF) and 173 transfers out (STVOUT) due for action.

All these cases have statutory timescales for completion and the consequence of consistently failing to do so will result in the Fund having to report itself to TPR risking reputational damage and financial penalties.

Appendix 1 – Increase in retirements



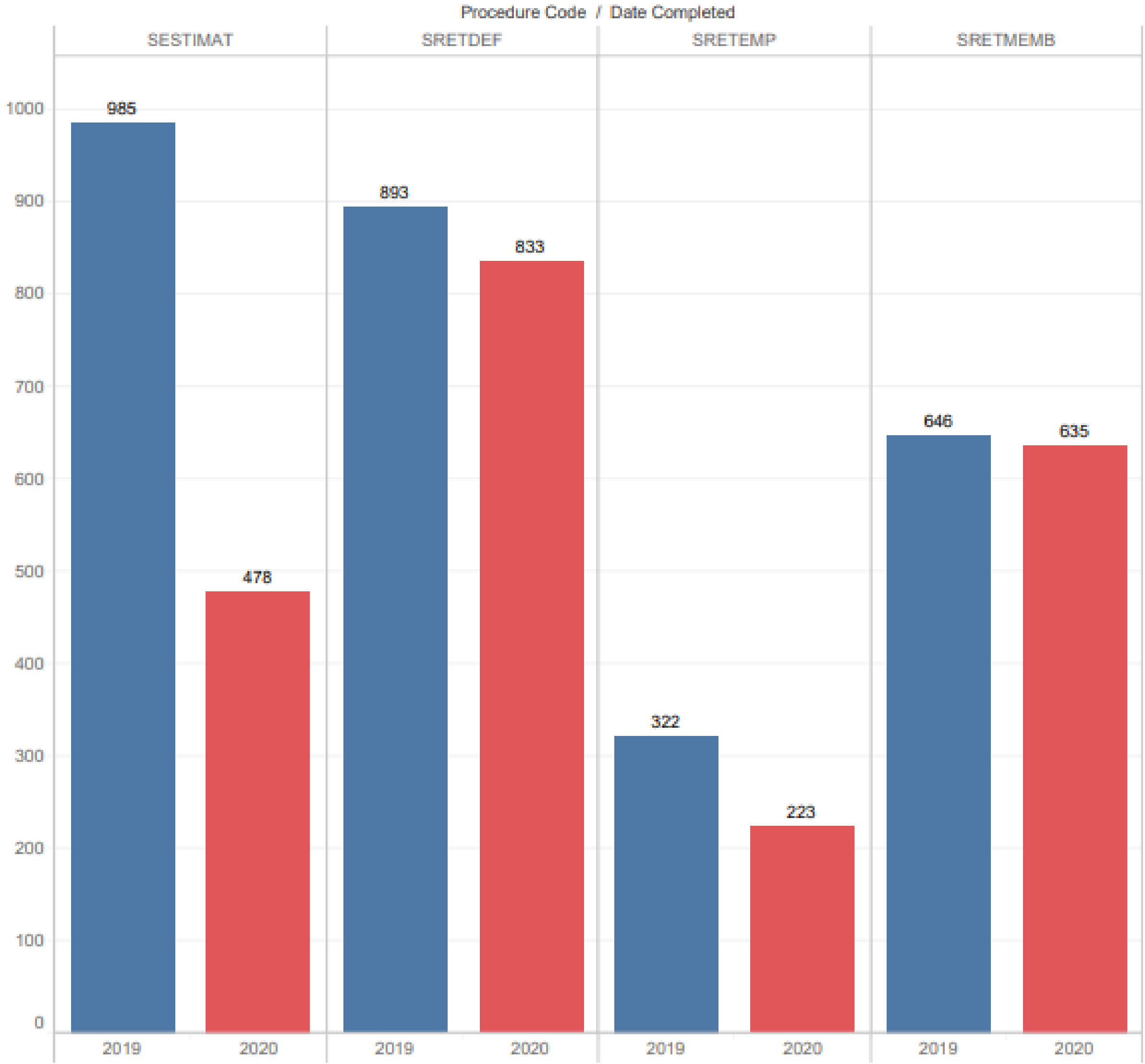
The chart shows a consistent increase in retirals since the introduction of the Care scheme in 2015.

Retirement estimates (SESTIMAT) and deferred (SRETDEF), employer (SRETEMP) and member (SRETMEMB) retirements all recorded highest numbers during 2019.

The impact of reducing voluntary retirement age from 60 to 55 is clearly evident for deferred retirals increasing by more than 600 when this change happened in 2019. The same change for active members was introduced a year earlier in 2018 and saw an increase of more than 100.

The retirements shown above do not cover all retirement types but only those that have seen significant increases.

Appendix 2 – Impact of pandemic on retirements



The chart compares completed cases during 2019 and 2020.

A reduction in retirement estimates (SESTIMAT) was expected as during the pandemic there have been less requests and for those that we receive members are encouraged to go online and use the benefit projectors in My Pension secure portal.

For deferred (SRETDEF), employer (SRETEMP) and member (SRETMEMB) retirements less have been processed in 2020 as we know it takes longer to do so whilst majority of staff continue to work from home.

This also evidences why backlogs referred to on page 3 are continuing to increase, a situation that can only be addressed with additional resource identified during the administration review.