



Aquila Heywood

# Going beyond **Data Exchange**

Whitepaper

# Contents

- 3 It's been a long time coming
- 4 Employers in the LGPS
- 4 The changing employer landscape
- 5 So what's the problem?
- 7 Learning from elsewhere
- 8 Making the next step: change improvement
- 10 Back to the future

# It's been a long time coming

**The multi-employer Local Government Pension Scheme (LGPS) is the fifth-largest pension scheme in the world in terms of assets under management, and the largest occupational pension scheme in the UK in terms of scheme membership.**

The LGPS consists of 99 locally-administered funds, with a total of 5.7m members and total assets of £270bn. In 2016 the number of LGPS employers increased by 22% to 15,594.

The LGPS was one of the first to implement computerised record-keeping and calculation systems when the CLASS Group formed in 1975. It was not uncommon back then for the valuation process to take five years to complete. The purpose of the new systems, developed in partnership with Aquila Heywood, was to improve the quality of the data and the speed at which it was provided to the administering authorities' actuaries, to deliver quicker and cheaper valuations. Ultimately, the new system provided much better information to the employers on the administering authorities' performance, supporting the budgeting and funding of the LGPS.

Aquila Heywood has continued to be the chosen technology partner for the CLASS group<sup>1</sup> over the 40-plus-year period since 1975. During this time there has been much advancement in pensions administration systems driven by significant improvements in technology and demands for greater efficiency.

<sup>1</sup>The Computerised Local Authority Superannuation System (CLASS) Group formed in 1975 with 11 members and now consists of 80 authorities.

## Employers in the LGPS

Employers are the sponsors of the LGPS. As such, they play a pivotal role in the success of the Scheme.

They are responsible for:

- Making regular contributions on behalf of employees
- Making additional contributions if the scheme is in deficit
- Facilitating communications with scheme members
- Setting up administrative processes for making payments
- Providing accurate and complete data to the scheme when requested

Each administering authority runs the local pension fund on behalf of its participating employers and their employees.

Administering authorities, therefore, have a number of core responsibilities relating to employer engagement.

## The changing employer landscape

Back in 1975, the number of participating employers in each fund would have consisted of a county council, 4-8 district councils and a small number of admitted bodies, town councils and local charities.

Over the years, with various local government re-organisations, the growth of commissioning authorities, a general increase in outsourcing across local government and the rise of the school academies in England, the number of employer organisations linked to each fund has massively increased.

Increasing scheme complexity, together with the surge in employer numbers, means administrators are spending more time speaking to and advising employers.

# So what's the problem?

**There has been a perfect storm in the last few years for the administering authorities: the increasing number of employers has reduced their economies of scale. Ten years ago, 80% of data would have come from one or two of the employers. Now, they are lucky if 50% of data is provided by two employers.**

For employers, austerity has resulted in fewer staff, whereas Pension Reform has resulted in an increase in pension administration duties that the remaining staff need to perform.

Employers are required to provide data in multiple interfaces and formats, to the administering authority on:

- Starters
- Leavers
- Changes in personal circumstance
- Contributions and pay information (year-end)

Getting the data right is crucial for pension fund managers. This is understandable considering the drive to member self-service solutions, and the attention that The Pensions Regulator (TPR) is giving member data quality. TPR is also requiring that scheme managers report on their record-keeping standards from 2018.

The LGPS has always been subject to scrutiny, but the increase in regulatory governance began to change with the Public Service Pension Act 2013, which paved the way for the current CARE pension arrangements.

The 2013 Act was quickly followed by the snappily-titled The Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014, which stipulated the records that scheme managers must keep. This, in turn, was backed-up by TPR's Code of Practice 14: Governance and Administration of Public Service Pension Schemes.

A big issue for employers is the resource required to provide this data across the year – but especially at year end, as this is the busiest time of year for the payroll team. Some employers have built business rules into their systems, but the majority rely on manual procedures to complete the process.

TPR states that only 55%<sup>2</sup> of employers provide good data as a matter of course.

Everything LGPS funds do for active members is driven by data from the employers' payroll and HR systems. Over the last decade, employer payrolls have become highly automated, but data transfer is still a manual process.

This all leads to significant time being spent on inefficient manual processing, leading to increased costs for employers.

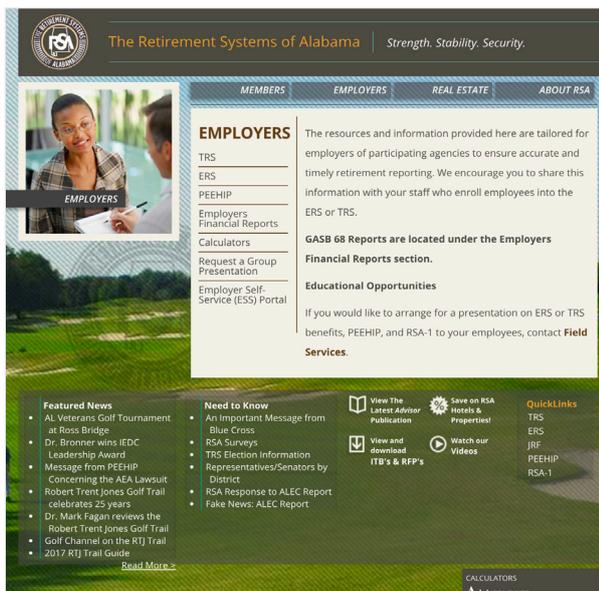
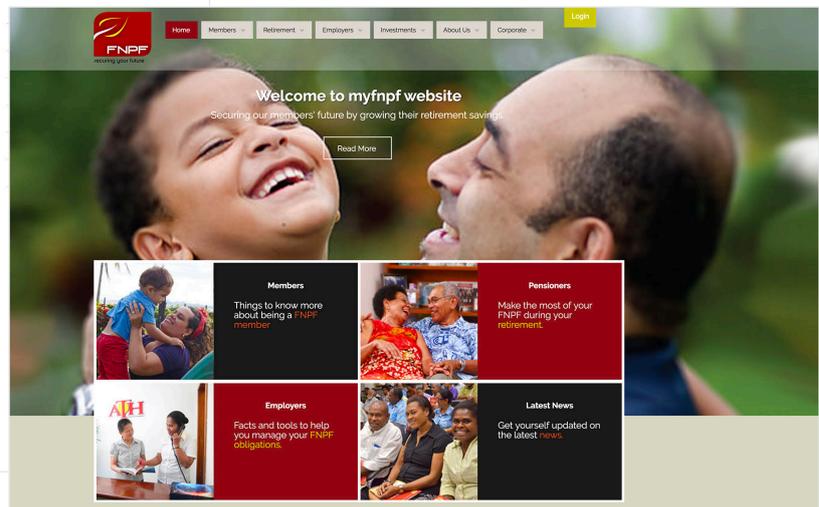
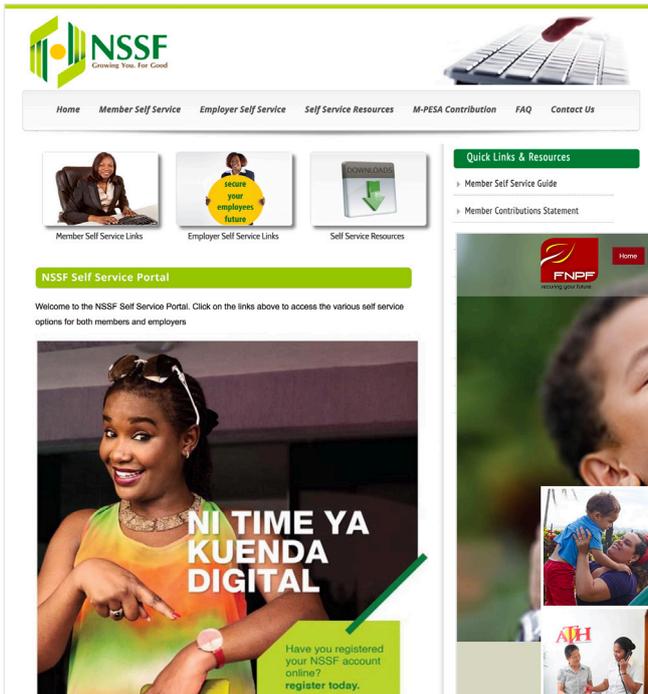
**In 2012 Aquila Heywood launched the award-winning i-Connect portal to help automate the core data exchange processes. Results to date have been impressive. Case studies with the North East Scotland Pension Fund and Berkshire Pension Fund, who have automated data exchange on i-Connect, have reported a 90% reduction in the effort expended capturing data.<sup>3</sup>**

But there is still more to be done. We estimate that employers spend around 30 minutes per employee each year on meeting their record-keeping duties to the pension fund. This might not seem a big figure, especially for a small town council with just one employee but, when multiplied across the 15,594 employers who participate in the LGPS and the 2.1m active members, it suddenly becomes a very big figure of around 100,000 days a year.

<sup>2</sup>The Pensions Regulator

<sup>3</sup>Berkshire Case Study

# Learning from elsewhere



Examining other countries shows the UK is not alone in this challenge. In places as far afield as the US, Kenya and Fiji we find the same problems/issues with their participating employers.

In terms of how these countries were solving those issues and engaging with employers, almost all have employer self-service solutions, with data exchange a common approach. Wider employer help and guidance is also to the fore.

# Making the next step: change improvement

**Research shows that many employers do not know what needs to be provided to the administering authority and when.**

In a 2016 TPR survey<sup>4</sup>, the highest proportion of LGPS respondents said the greatest challenge to addressing governance and administration issues was employer engagement and training.

This comes at a time when the biggest barrier to improving governance and administration<sup>5</sup>, according to LGPS scheme managers, was increasing capacity/resource planning and specialist knowledge.

The Pensions and Lifetime Savings Association (PLSA) published the second in a series of guides in May 2017 aimed at helping new and participating employers in the LGPS.

Entitled 'A Guide for Employers Participating in the LGPS: Best Practice', it aims to give an overview of the financial commitments, administrative responsibilities and regulatory requirements that employers face once they have joined. Given the 22% increase in LGPS membership in 2016<sup>6</sup> and continued increases going forward, helping new employers navigate the LGPS is becoming more and more crucial.

<sup>4</sup> Public Service Governance and Administration Survey

<sup>5</sup> The Pensions Regulator

<sup>6</sup> LGPS Board

Improving employer communications and engagement is vital. Employers need to have a clear structure and allocated responsibilities in place to manage their relationship with the administering authority.

The PLSA Best Practice Guide recommends that administering authorities should hold employer forums as a means to communicate with participating employers in the scheme, and attendance at these meetings is an essential aspect of best practice when participating in the LGPS.

Many funds already hold annual employer forums; however, it is difficult to achieve 100% attendance at such events, and this does not address the need to communicate, inform and support the employers across the year.

## So how can employer engagement be improved?

Tailoring engagement and support to employers is key. Diversifying how employers can access information is vital in tailoring engagement. Allowing employers to access the information they need through videos, FAQs, e-learning and online leaflets and PDFs not only provides employers with flexible access when they need it, but also enables administering authorities to track which content employers are viewing and when.

However, providing a range of information is useful only if employers can make sense of it. Pensions and payroll are not an employer's first priority and do not form a large part of their day-to-day role. Using simple language is crucial in supporting and helping employers understand the tasks they need to do and what the tasks comprise.

These changes will not happen overnight. Patience is needed in implementing these changes and ensuring employers are still able to contact funds for help, when needed.

# Back to the future

So, if we look back to 1975, when the CLASS Group decided that the future of pensions administration was a computerised record-keeping system to help with the valuation, nobody could have envisaged the changes in LGPS employers or the governance overheads that exist today.

A radical transformation is taking place in the way administering authorities communicate and interact with their members.

**The rollout of the 'pensions dashboard' and the increasing number of LGPS funds implementing member self-service offerings are revolutionising the way in which schemes connect with their members.** This digital transformation is both welcome and necessary.

But the equivalent transition to a digital world seems to have bypassed the third element of the triumvirate set of stakeholders within the LGPS, that is, the scheme sponsors - the employers. Forty years on, it is time to do more than just automate data exchange; **employer engagement, communication and education are equally now essential in order to achieve streamlined interactions between the administering authority and the employers.**

**Aquila Heywood is dedicated to making this happen.**

For more information, contact us at [enquiries@aquilaheywood.co.uk](mailto:enquiries@aquilaheywood.co.uk) or visit our website: <https://www.aquilaheywood.co.uk>