



Aquila Heywood

Aquila Heywood's response to The Pensions Regulator's consultation on compliance and enforcement policy for public service pension schemes



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1 Introduction

We welcome the opportunity to respond to The Pensions Regulator's consultation on compliance and enforcement policy for public service pension schemes.

To put our response in context, we have provided details about Aquila Heywood and our customers in the Appendix.

2 Our response to the consultation

We fully support The Pensions Regulator's proposed approach to compliance and enforcement in relation to public service pension schemes. We welcome having a consistent regulatory regime across all the public service pension schemes, while recognising the difference between the centralised schemes and the locally-administered schemes – primarily the Local Government Pension Scheme (LGPS) and the Police and Firefighters' schemes.

We believe that The Pensions Regulator's Public Service website provides a comprehensive overview of the requirements in its Code of Practice, and the Public Service toolkit is a good resource to help pension board members and administrators to increase their knowledge and understanding in line with the Code of Practice.

As the leading supplier of pensions administration software in the public sector, we continue to work with the CLASS Group ¹ to ensure that standards of administration and governance are **effective and efficient**, with a particular focus on record-keeping, service standards and benchmarking.

We recognise that there are significant challenges, with the reform of public service pensions and the major changes being introduced in the Pension Schemes Act 2015 and the Taxation of Pension Act 2014, and we acknowledge that, in the early stages of the new regulatory regime, The Pensions Regulator will focus on working with scheme managers and administrators to help them become compliant.

However, we believe that The Pensions Regulator should establish and publish the timescales by which it would expect schemes to comply fully with the Code of Practice. This could apply in particular to the knowledge and understanding requirements for pension board members and administrators and the record-keeping requirements. This will help focus attention on compliance.

We also believe that compliance would be assisted if The Pensions Regulator indicated a scale of penalties for non-compliance in some areas – see later.

¹ CLASS (Computerised Local Authority Superannuation System) Group is a collection of 85 Local Authorities consisting of Local Government, Police and Fire departments, who collaboratively share benefits and experiences of administering their Pension Schemes in each of their respective Authorities.

We recognise that data quality is essential in administering pension schemes, and it is of paramount importance that data provided by employers is accurate and provided on a timely basis. Indeed, legislation now prescribes record-keeping requirements. We equally recognise that some public service pension schemes have hundreds of employers who should be submitting contributions and data on a monthly basis. We would suggest that scheme regulations should make that it clear to all employers that data and contributions must be submitted monthly. We cover this in more detail in the following sections.

3 Record-keeping requirements

The DWP requirements for record-keeping for public service pension schemes identify what data needs to be recorded. It should be relatively straightforward to monitor whether data is complete from a compliance perspective, but we believe it is also important to focus on the data being accurate.

It will be most important to ensure that new data provided by employers is validated by the scheme, which should ensure that the data quality measures are improving while schemes look to obtain missing data.

In reality, the DWP record-keeping requirements are the legislative minimum data requirements, and we would suggest that Scheme Advisory Boards should be advising Scheme Managers about:

- Prescribing additional data quality requirements that are appropriate for their schemes
- Benchmarking data quality levels so that pension boards and The Pensions Regulator have good visibility of data quality levels across public service pension schemes

4 Monitoring contributions

As we outlined earlier, we believe that monitoring contributions will be increasingly challenging for public service pension schemes as the volume of employers continues to increase.

The Pensions Regulator's Code of Practice refers to employer contributions being submitted in line with scheme regulations, and employee contributions being submitted to managers of the scheme at the latest by the 19th day of the month following the deduction (or by the 22nd day, if paid electronically).

Given the nature of the Career Average Revalued Earnings (CARE) benefits that will apply to all public service pension schemes from April 2015, it is important that schemes are recording pensionable pay on a regular (monthly) basis, so that employee contributions (and employer contributions, where applicable) can be validated and, at any point of time, members can see the current value of their benefits and that their contributions have been submitted to the pension scheme. In many ways, this is very similar to the need for monitoring contributions for defined contribution schemes.

Making sure data is submitted on a timely basis and is verified is critical.

We believe that it is important that employers should be mandated to submit data and contributions on a monthly (or four-weekly) basis in line with their payroll runs, in a similar way in which employers are mandated to send Real-Time Information (RTI) data to HMRC. We understand that the Teachers' Pension Schemes will be mandating monthly submissions in future. We believe that, given the volume of LGPS employers, the diversity in the type of employer and the variance in their financial viability, there could be a significant problem ensuring that data and contributions are submitted on time.

We also believe that such an approach could encourage employers to take an active interest in the quality of the administration and the data they provide to schemes. This is important, as costs associated with resolving poor-quality data and contributions currently fall on schemes rather than the employers that are responsible for providing the data.

We understand that, even though scheme managers will be chasing employers to submit contributions and will have evidence of this, any enforcement by The Pensions Regulator will impact on the scheme and not the employer. We understand how this has come about, but it seems somewhat ironic. We hope that schemes ensure that they can recoup any fines from employers through their Pension Administration Strategies or commensurate measures!

We think it would be useful if The Pensions Regulator gave some indication of the level of penalties that it would consider as part of its enforcement actions. This could be similar to the approach of Fixed and Escalating Penalty Notices that The Pensions Regulator has put in place in relation to compliance with employer duties on automatic enrolment regulations. The threat that 'the Regulator may issue escalating penalties at a prescribed daily rate, ranging from £50 to £10,000 (dependent on the number of persons the employer has)' would help focus schemes' and employers' attention!

5 The role of pension boards

We believe that pension boards will have a significant role to play to ensure that public service pension schemes are meeting the record-keeping and data quality requirements set out by the DWP and The Pensions Regulator.

We would suggest that local pension boards should pay particular attention to the quality and timeliness of data provided by employers. Our belief is that employers that provide data that meet all the quality requirements are subsidising the employers that do not. As explained earlier, we think that monitoring contributions will be a major challenge for pension boards.

While we fully support the need for strong governance, we do believe that there are opportunities to reduce the cost of governance in locally administered public service pension schemes by ensuring there are consistent processes and methods across local pension boards and by allowing joint pension boards. We understand that the Police Pension Schemes will be introducing joint pension boards and that the Firefighters are still considering the option of joint pension boards. Local pension boards within LGPS will need to ensure that they meet all The Pension Regulator's requirements and add value given the focus on cost-cutting within Local Government.

Collaborative working across a smaller number of local pension boards would produce greater consistency, which will facilitate greater automation at lower costs.

6 How Aquila Heywood can help

i-Connect is a web-based application that our customers use to manage the data flow from employer to administrator, including:

- Submitting salary, contribution and personal data changes each month
- Validating data to ensure that invalid data is identified and rejected allowing employers to resubmit data after corrections
- Monitoring employers and issuing reminders to ensure data is submitted on a timely basis
- Identifying new joiners and leavers that need to be processed and generating workflows to ensure that all pieces of work are processed in a timely basis in line with service standards
- Assisting employers to meet their Pension Reform and auto-enrolment requirements

Aquila Heywood is also working with the CLASS Group to introduce Data Quality and Validation Services and Employer Relationship Management modules.

These developments are all oriented toward improving quality and reducing costs in public service pension schemes.

7 In conclusion

We welcome the opportunity to respond to this consultation and hope that our response is useful for The Pensions Regulator.

We would be more than happy to meet with The Pensions Regulator's representatives to discuss any points raised in our response.

Jerry Barnfield
Head of Market and Product Strategy
Aquila Heywood

8 Appendix - about Aquila Heywood

Aquila Heywood is the leading supplier of life and pensions administration software solutions in the UK. The pension schemes for ten million members in more than 200 major organisations are run using our administration software solutions.

We are the leading provider of pension software and associated services to the Public Sector; we have been supporting customers directly and collaboratively through the Computerised Local Authority Superannuation System (CLASS) Group to administer their pension schemes for 40 years.

We are the market leader within Local Government Pensions with 85 of the 99 Administering Authorities (AAs) across England, Scotland, Wales and Northern Ireland using our pension administration systems. Based on the Local Government Pension Scheme Returns for England and Wales (SF3) from October 2012, our customers account for over 80% of the total membership of the LGPS.

Furthermore, 37 Police and 49 Fire Schemes are administered on our systems. In terms of Central Government schemes, the Scottish Public Pensions Agency (SPPA) administers the Teachers and the NHS Pension Schemes in Scotland and the Health and Social Care Pension Service (HSCPS) in Northern Ireland administer the NHS Pension Scheme using our platforms.

For more details about Aquila Heywood, email enquiries@aquilaheywood.co.uk or visit our website: <https://www.aquilaheywood.co.uk>