



August 2019

Report

## Annual Benefit Statements 2019

Quality checks performed

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# 1. Introduction

The Pensions Regulator has stipulated that the Scheme Manager must by 31 August 2019 have taken all steps necessary to implement and operate adequate internal controls to provide accurate annual benefit statements for the Scheme year 2018/19. This will be evidenced by the Scheme Manager demonstrating that:

- a process is in place to test the quality of calculations used to populate annual benefit statements;
- the process was utilised; and
- corrections were made where calculation errors were identified.

This report sets out the processes and quality checks undertaken by Capita's technical and events teams during the production of the 2019 annual benefit statements for active, deferred, deferred pensioner and pension credit members.

The scheme administrator, Capita, has employed a two tier process to ensure that the quality and integrity of, not only, the calculations used to populate the annual benefit statements but also the data contained within the calculation routines is of the highest possible standard. Additionally checks have been carried out throughout the entire process to track and control the data that has been submitted by employers which has then been used in the calculation of the annual benefit statements.

The controls and checks employed by the events team are stored in Appendix 1. In addition to these checks, further enhanced testing was performed by the technical team on the data output used to populate the annual benefit statements to ensure that the expected outcomes were returned across the full membership being issued with an annual benefit statement.

Areas identified during testing as meriting further explanation are covered in detail within this report.

## 2. Quality check approach adopted

Initially, the scheme administrator, Capita, was asked to sample test at least 3% of the benefit statements produced. However, on further discussion about the approach undertaken to ensure the quality and accuracy of the annual benefit statements produced, it was decided that this approach should be revised.

Random sampling is akin to hunting for a needle in a haystack and it is possible to pull out 300 pieces of straw from the haystack without stumbling across a needle, even though a needle or two may exist. Therefore to ensure that any potential issues were located and dealt with, targeted and random sampling combined with tolerance and exception testing was employed.

### **Targeted and random sampling**

Targeted sampling enabled all of the calculation routines used in the production of the annual benefit statements to be tested, ensuring that the outputs of the routines gave the expected outcomes. The number of routines employed in the production of the annual benefit statements is finite so once it was clear that a routine worked under the various possible permutations, random sampling was employed to further test and confirm the outcome of the targeted sampling.

Additionally, targeted sampling ensured that any manual activity, such as the merger of the reports used to produce the deferred benefit statement extract, was successfully completed.

## **Tolerance and exception testing**

Every data field output onto the annual benefits statement was subjected to exception testing. The tests carried out were designed to ensure that the expected information was accurate and presented correctly. An explanation on the purpose of the key tests and the findings of these tests is given within this report. All of the exception tests run, the results and actions taken as a result of any reported exceptions are contained in appendix 2 for deferred members and appendix 3 for active members.

Tolerance testing enabled source inputs provided by employers to be tested for reasonableness. For example, was the difference between CARE pay and final salary pay reasonable and reflective of, say, a member's part-time working pattern? The tolerance and exception tests run, the results and actions taken as a result of any reported tolerance breaches or exceptions are contained in section 6 of this report or appendix 2 for deferred members and appendix 3 for active members.

This tolerance and exception testing approach has been adopted as the number of routines employed in the production of the annual benefit statements is finite and whilst bulk random testing should show that the routines are working, it does not address the other key qualifier for ensuring accurate benefit statements – accurate input data. This enhanced tolerance and exception testing on the input data and calculation output data ensured that the accurate data needed to produce the annual benefit statements was returned across the full membership and gives the assurance sought by the Scheme Manager that the calculation routines and data output that was used to produce the annual benefit statements was to the highest possible standard.

## **Testers and extract production**

The events team used reports containing data held in member pension records to create the data extracts that populated the annual benefit statements for the active and deferred membership. The statements issued to active members were populated using a single report. Seven reports were combined to form the extract used to populate the statements issued to the deferred membership. The controls and reasonableness checks undertaken by the events team in the production of the annual benefit statement extracts is outlined in section 3 of this report.

It was these extracts, which are used to populate the annual benefit statements, which were passed to the technical team for quality testing. The targeted and random sampling combined with tolerance and exception testing that was employed by the technical team to test the input and output data is outlined in sections 7 and 8 with special mention given to the findings on debits arising from divorce proceedings or a member's request for the Scheme to pay their annual allowance tax charge in sections 4 and 5 respectively.

Exceptions reported by the technical team were investigated and confirmed by the events team and the operations team who carried out any remedial action required to member records.

The team members responsible for the testing and correcting of data were as follows:

Technical team testers:	Catherine Carruthers, LGPS Technical Manager Roger Swift, Technical Consultant LGPS Martyn Slaughter, Technical Consultant LGPS Andrew Beedall, Technical Consultant LGPS Ellie Ingamells, Technical Consultant
Events team members:	Glynn Oliver, Senior Pensions Administrator Michael Gladstone, Senior Pensions Administrator
Operations team member:	Emma Walton, Pensions Administrator

### 3. Controls and reasonableness checks undertaken by the events team

End of year (EOY) data requests were issued on 6 March 2019 and employers were requested to return their EOY data by 30 April 2019.

EOY data is used in the production of the annual benefit statements and the pension savings statements that are issued to members whose pension savings exceed the annual allowance of £40,000. The statutory deadline for the submission of EOY data under the Local Government Pension Scheme (LGPS) Regulations is that it must be submitted within three months of the scheme year end (i.e. by 1 July each year). The statutory deadline for the submission of EOY data for use in the production of pension saving statements is by 6 July each year.

If EOY data is submitted after these statutory deadlines the annual benefits statements can still be produced providing the EOY data is received before 31 July.

The events team performed some initial checks on the EOY data received to ensure that the data was of suitable quality to upload into the pension administration system, such as:

- Comparing the number of active members held on the pension administration system with the return submitted by the employer
- Identifying any differences and determining if these arose from members joining or leaving the Scheme, requesting the relevant notices if these had not been previously supplied
- Verifying unique pension member identification number counts ensuring no duplicate entries existed
- Active membership date had been completed and that it matched the date already held on the member's pension record
- Where a leaving date was entered, that the correct leaver notification had also been received
- Final salary pay given was greater than the minimum wage and it was not too high or too low for the member's role
- Where a 50/50 pensionable pay was provided had the move to the 50/50 section been notified and vice versa if no 50/50 pensionable pay was reported but the member's pension record showed they were in the 50/50 section
- Any minus or missing amounts i.e. was the necessary/required data present
- Contract working hours were detailed as full-time (FT), part-time (PT) or term-time (TT)
- We had received data for every post i.e. if we had three active member records for a person for that employer, we also had three lines of data
- No text appeared in numerical columns
- The employer and employee contributions had been placed into the correct columns
- EOY was signed off as complete and correct by the Employer/Payroll Provider

Any fails of the reasonableness checks or any non-standard templates received were returned as these could not be uploaded into the pension administration system. The control sheet for this work activity (events team log book) is stored as Appendix 1.

## 4. Divorce debits

During testing the technical team discovered that the number of pension debit and pension credit members were significantly lower than expected.

Debit / Credit	Active members	Deferred members	Pensioner members
Pension debit	2 (1 legacy data)	1 (legacy data)	7 (4 legacy data)
Pension credit	N/A	6 (4 legacy data)	4 (2 legacy data)

We have reviewed the number of requests received since 1 March 2014 which relate to divorce proceedings. There are specific dedicated casetypes which can be used to record requests received relating to divorce actions and the initial search conducted by technical showed that seven enquiries had been received of which four related to cases where a pension sharing order was implemented.

Due to the low volume of cases identified a further search was conducted by the technical team. This search centred of the casetypes used to record requests received for cash equivalent transfer values; this is the only other casetype that can be used to record a request for a cash equivalent transfer value.

A visual check of the documents held under the casetype for the cash equivalent transfer value requests showed that 134 requests out of the 333 cases identified related to cash equivalent transfer value (CETV) requests for divorce proceedings of which three of these requests had progressed to require the implementation of a pension sharing order. Two of the pension sharing order (PSO) cases identified matched those already known with the third case relating to an implementation which is currently in progress (a new case received in July 2019).

Scheme year	CETV requests received	Progressed to PSO
2013/14	6	1
2014/15	27	1
2015/16	25	0
2016/17	8	0
2017/18	29	0
2018/19	30	0
2019/20	9	1

We are unable to interrogate the legacy data (i.e. data before 1 March 2014) in the same way to validate the numbers of pension sharing orders that have been implemented since 1 December 2000. However, given the experience since 1 March 2014 we feel that the six known cases could be reflective of the actual numbers received.

It should be noted that the responsibility for providing a pension provider with a copy of the sealed pension sharing order rests with the member, spouse or the Court. This position is currently set out in

the Family Procedure Rules under Rule 9.36(2). This Rule can be found on the Ministry of Justice website at [https://www.justice.gov.uk/courts/procedure-rules/family/parts/part\\_09](https://www.justice.gov.uk/courts/procedure-rules/family/parts/part_09).

In consequence, it is not expected that administrators of pension arrangements follow up requests for cash equivalent transfer values as many separating parties do not enter into a pension sharing arrangement and there is a requirement built into the relevant Court procedures, which should result in the scheme administrator being provided with a copy of any pension sharing order issued by the Court.

Consequently, for those cases we have identified since 1 March 2014 as having started divorce proceedings by the member requesting a cash equivalent transfer value, if a pension sharing order had been issued by the Court for these cases, notification of the order should have been received and recorded in the member's pension documents folder.

The documents folders of the 134 cash equivalent transfer value requests identified were visually checked and, with the exception of the newly reported pension sharing order and the known cases, no documents relating to pension sharing were found. We are, therefore, satisfied that the four known pension sharing order implementations between 1 March 2014 and 31 March 2019 is correct even though it is an unexpected result and we are also satisfied that these debits are correctly reflected in the annual benefit statements that have been issued.

However, to ensure members are reminded to contact the pension scheme administrators to ensure they understand how pension debits arising from a divorce affects their pension, an adjustment has been made to this year's annual benefit statement to direct members to contact the pension scheme administrators if they have entered into a pension sharing agreement.

## 5. Scheme pays debits

During testing we were only able to identify one Scheme Pays debit in the legacy data. Whilst this may seem low it is possible that this is reflective of the correct position. The annual allowance dropped from £255,000 to £50,000 with effect from the Scheme year 2011/12 so Scheme Pays debits from before 1 April 2011 are not expected.

Whilst we cannot verify if an annual check for annual allowance excesses was performed in the legacy data, the known Scheme Pays debit relates to the Scheme year 2011/12. Additionally, as the annual allowance was £50,000 and members could use the carry forward available from the previous three years to offset their annual allowance excess it would not have been unusual for a Fund of this size to have had only one or two cases of Scheme Pays elections a year; particularly in light of the public sector pay restraint that was prevalent during this era.

To give some added surety that the numbers are reasonable we interrogated the data arising from the annual allowance checks done since 2014/15.

Year	Number exceeded	Excess offset by carry forward	Scheme paid AA excess
2014/15	7	Yes	N/A
2015/16	4	Yes for 3 & no for 1	No elections received
2016/17	24	Yes for 20 & no for 4	2 elections received
2017/18	22	Yes for 16 & no for 6	2 elections received



The low number of members who exceeded the annual allowance in 2015/16 is not unexpected and is explained by the alignment of the pension input period to the tax year which gave members the ability to save up to £80,000 for the period 1 April 2015 to 5 April 2016 (the 2015/16 pension input period). In the 2015/16 pension input period, 14 members had pension savings that exceeded £40,000 but due to the way their savings were apportioned to the pre and post alignment pension input periods, these members did not exceed the annual allowance.

We have carried out a visual check of the documents held in the documents folders for those members who did not have sufficient carry forward to offset their annual allowance excess to ensure a Scheme Pays election has not been received. Additionally, we have reconciled the number of Scheme Pays elections received against the Scheme's finances and have matched the number of debits arising from elections relating to the period from 31 March 2014 to 5 April 2018 against the payments made to HM Revenue & Customs. We are, therefore, satisfied that the number of known Scheme Pays debits we hold which were implemented for the period 31 March 2014 to 5 April 2018 is correct and that these debits are correctly reflected in the annual benefit statements that will be issued.

However, to ensure members understand how pension debits arising from a request for the Scheme to pay their annual allowance tax charge affects their pension, this year's annual benefit statement directs members to contact the pension scheme administrators if they have made an election for the Scheme to pay their annual allowance tax charge.

## 6. Additional pension

There are four main ways for a member's Scheme benefits to be increased:

- Added years – extra service is bought by the member at either a 60<sup>th</sup> or 80<sup>th</sup> accrual
- Additional Regular Contributions – extra pension is bought by the member
- Additional Pension Contributions – extra pension is bought by the member
- Augmentation – extra service at a 60<sup>th</sup> accrual or extra pension is bought by the employer

During tolerance testing of the additional pension contracts in the deferred and active population three anomalies in the data were detected.

The first anomaly related to four augmentation cases (one deferred, three active). These members had been awarded additional service by their employer for service carried out in 2008. This augmentation was to service and increased the member's 60<sup>th</sup> accrual so an automatic lump sum would not be expected. For all four cases an automatic lump sum was found; however, the 2013 annual benefit statement (last statement issued before pension data migrated to Hartlink) for these members did not show a lump sum. This could indicate a migration error so we checked all of the added years and augmentation cases that migrated and no further cases could be found where augmentation has been stored incorrectly. The pension records and annual benefit statements have been corrected.

The second anomaly related to changes to added years contracts as a result of part-time hour changes. For example, the historic changes to 9 July 2013 for one member was found to be incorrect; we do not believe that this is a migration error as all other members who migrated with historic part-time changes had correct data in their contract records. Additionally, we can see from the affected member's 2013 annual benefit statement that their added years were overstated which suggests that there was a record keeping error. The error identified has resulted in the deferred benefits in relation to

added years being overstated for the affected member. This overstatement has been corrected on the member's pension record and annual benefit statement.

The third and final anomaly related to changes to added years contracts as a result of the contributions stopping before the contract completion date and affected three members. We do not believe that this anomaly relates to a migration error as there were other cases where the record that migrated was correct. Additionally, we can tell from the 2013 annual benefit statement that was issued to these members that their added years were overstated which suggests that there was a record keeping error. The error identified has resulted in the deferred benefits in relation to added years being overstated for the affected members. This overstatement has been corrected on the member's pension record and annual benefit statement

All members for whom we perform a correction to their deferred benefits will be notified of the correction made.

## 7. Deferred benefit statement checks

A key area to address was that the expected pension elements were present across the membership. For example, a member with pensionable service before 1 April 2014 would be expected to have a final salary entitlement showing on their annual benefit statement.

To ensure confidence that the correct pension elements were present in the data used to create the annual benefit statements, a number of tests were run against:

- the data that formed the inputs to the calculation routines used to calculate the benefits shown in the annual benefit statements: and
- the calculation outputs that were then used to populate the annual benefit statements.

This ensured that the quality of the data used in the routines employed was of sufficient quality to ensure the accuracy of the deferred benefits quoted. Three groups of tests were applied to the membership for whom an annual benefit statement could be produced and which are scheduled to be issued before 31 August 2019; this numbered 9,343. The tests run encompassed three core areas:

- Calculation routine tests – were performed on the calculation routines employed in the production of the annual benefit statement data to ensure that the routines produced the expected outcomes
- Tolerance tests – were applied to the input data to ensure that the data used in the calculation routines was reasonable
- Exception tests – were employed to ensure that data output used in the population of the annual benefit statements was reasonable and produced the expected outcomes. The annual benefit statement is made up of 4 sections and the data output to each of these sections was tested

The results of the tests run are recorded in appendix 2 and an overview of main tests is given below.

### Calculation routines tested

There are a limited number of calculations run to produce the data that is required to populate the annual benefit statements. This is because the deferred benefits quoted in the annual benefit statement are derived from the initial deferred pension benefits held and extracted from the member's deferred benefits record in the pension administration system; this record is updated when the member leaves service with the pension data, pension and lump sum (if any), showing on the deferred pension statement that is issued to the member when they leave pensionable service.

### **Pension and lump sum revaluation routine**

Pensions increase is added to the initial pension (including any additional pension bought) and initial lump sum (a lump sum only applies to members with pensionable service before 1 April 2008) to arrive at the value of the member's pension and lump sum as at the date of the annual benefit statement. The check performed ensured that the member's initial pension and lump plus pensions increase matched the value that would show on the annual benefit statement. Where a Treasury order also applied (affects leavers after 31 March 2014) a check was run to ensure the correct increase in respect of the order had been applied. A range of leaving dates was tested and all of the cases tested showed the correct level of increase had been applied.

### **Survivor benefits routine**

Exception testing proved that there were data issues with the survivor benefits data held in legacy deferred member records. For example, a pension credit member set up in 2006 was found to have a contingent survivor's pension attached to their pension record but pension credit members do not have an entitlement to a contingent survivor's pension. This record keeping error will be corrected by a job request (JR) being raised to remove the incorrect entitlement and this will similarly apply to any other data errors identified which affect member pension records.

However, due to suspected data quality issues, we have never relied on the legacy data for the survivor pension output used in the annual benefit statements. Instead we have always derived the survivor's pension from the member's extracted initial pension plus any pensions increase or Treasury orders, using the rules set out in the LGPS Regulations. Exception/sample testing highlighted an error in the formula that was manually applied to the 2018/19 extract. This formula error was corrected and targeted testing was then employed to ensure the output delivered was correct.

### **Lifetime allowance routine**

The percentage of lifetime allowance used was derived from the member's initial deferred pension and lump sum, if any. Any applicable pensions increase or Treasury orders due since the member's date of leaving was added to these initial amounts before being tested against the lifetime allowance in force at the date of the annual benefit statement to determine the percentage lifetime allowance used. Sample testing confirmed that the calculation routine employed to produce this output was correct and the expected outcomes were being delivered i.e. initial deferred pension and lump sum plus any pensions increase or Treasury order was tested against the current value of the lifetime allowance.

### **Death grant routine**

The final calculation used to produce the deferred member extract was to determine the death grant that would become payable. The death grant was derived from the member's extracted initial pension, plus any pensions increase or Treasury orders, using the multipliers set out in the LGPS Regulations. Sample testing confirmed that the calculation routine employed to produce this output was correct and the expected outcomes were being delivered.

### **Tolerance tests run**

These tests were designed to ensure that the level of benefits being quoted were reasonable and commensurate with the member's pensionable service and earnings. Sample testing within the target groups of low and high deferred benefit entitlements confirmed that low entitlements were linked to low pensionable service or low pensionable pay; high entitlements were linked to long periods of pensionable service or high pensionable pay.

However, the tolerance testing for reasonableness on the additional pension bought purchased by members threw out some anomalies in respect of added years. The findings of this test are explained in detail in section 6.

## Exception tests run

Only the key exception test results have been covered in this section. A full breakdown of the exception tests run, the findings of these tests and actions taken can be found in appendix 2.

### Normal pension age

The normal pension age was tested for all members to ensure the correct data was being output. The normal pension age a member may have depends on when they left service and can be anywhere between age 60 and State Pension age.

There were no notable exceptions found. This was expected as the error discovered in the normal pension age held on the pension record for members who joined the Scheme before 1 April 1998 and who left before 1 October 2006 was corrected prior to this annual exercise commencing.

### Presence of correct pension elements

Tests were run to ensure that a final salary pension and automatic lump sum was present for members who held pensionable service before 1 April 2008. Three exceptions were found where the lump sum was found to be missing. The correct data was present in the original deferred benefit statement issued to the members but had not been replicated in their member record. These pension records and the data used to populate the annual benefit statements have been corrected

For members with pensionable service before 1 April 2014 a check was done to ensure that a final salary pension was held. Additionally, where the member had also left service before 1 April 2014, we checked that no CARE pension was recorded. No exceptions requiring action were found.

For members with service after 31 March 2014 a check was done to ensure that a CARE pension element was held. There were 14 exceptions. Nine of the exceptions related to councillors whose service after 31 March 2014 builds as a final salary benefit; these members' benefits were correctly output as final salary for service after 31 March 2014. Of the five remaining exceptions only one record required correction to add CARE pension to the member's pension record and the data used to populate the annual benefit statement; however, the CARE pension was included in the original deferred benefit statement issued to the member.

### Divorce debits

Please refer to section 4 of this report.

### Scheme Pays debits

Please refer to section 5 of this report.

### Survivor benefits

Exception testing proved that there were data issues with the survivor benefits data held in legacy deferred member records. For example, a deferred female member who left in 1987 (41970454) was found to have a contingent spouse's pension attached to their pension record but at the time this deferred benefit record was set up, this member did not have an entitlement to a contingent survivor's pension. A job request will be raised to correct the member's pension record and this will similarly apply to any other data errors identified during this exercise which affect member pension records.

## Member 41992864 exception report

This member was paid a refund of contributions on 4 August 1995. The cheque number was 522777 and the contributions equivalent premium (CEP) was processed under the debit note numbered 92829.

In 2007 a CA form was issued by HM Revenue & Customs following the termination of employment advising that the member had a GMP of £0.10 per week. A letter was issued by the scheme administrator to HM Revenue & Customs advising that the CEP had been paid and that the Fund did not hold a liability for this member.

On receipt of this letter HM Revenue & Customs wrote back to requests details of the payment made, such as cheque number. Instead of supplying the details requested a deferred member record was set up and a note added to say 'Inforced Gmp. Ca Was Not Paid Record Set Up As Gmp Of 0.10 Pw Payable From 24.04.2019. Refund Was Paid. Pahi'.

However, as the member was under age 50 at the time this action took place the LGPS Regulations required the member to be reinstated into the State Earnings Related Pension Scheme (SERPS) via the payment of a CEP. This is because a CEP can be paid following the termination of contracted-out employment in the following circumstances:

- the contracted-out employment was by reference to a contracted out salary related (COSR) scheme
- the total period of contracted-out employment within the COSR scheme, must be less than two years
- the period of employment ended before the earner reached the scheme's normal pension age, or if earlier, the end of the tax year before the member reaches the age at which they become entitled to receive their guaranteed minimum pension (GMP)
- total qualifying service as defined by the Pension Schemes Act (PSA) 1993, is less than two years
- there are no accrued rights to short service benefit - except in the case of a widow or widower,
- an election is made by completing the appropriate termination notice, (the relevant CA form had been supplied to HM Revenue & Customs)
- and one of the following applies:
  - the earner ceases to be in contracted-out employment, and this is not due to the earner's death, unless the earner leaves a widow or widower, or
  - the scheme has ceased to contract-out on 6 April 1997 or later, or
  - the scheme is wound up on 6 April 1997 or later.

A CEP is not payable if:

- pension rights are transferred to another contracted-out scheme or to an Appropriate Personal Pension (APP)/Appropriate Personal Pension Stakeholder Pension (APPSHP) scheme, or
- an employee exercises an option allowed under scheme rules to have pension rights preserved even though the qualifying conditions of the PSA 1993 are not satisfied, or
- an employee elects to have the pension rights secured through an insurance policy or annuity contract, or
- accrued rights include rights transferred in from an APP/APPSHP scheme, or
- a woman dies whilst in contracted-out employment, and the period of contracted-out employment is entirely before 5 April 1997, or
- a woman has paid reduced-rate contributions for the whole period of contracted-out employment, or
- the scheme has ceased to contract-out or is wound up before 6 April 1997

We do not believe this member was entitled to receive a deferred benefit because the conditions for the payment of a CEP were met and none of the conditions that would prevent a CEP payment were met. Additionally, unless the GMP had been enforced due to the member reaching GMP age, the LGPS regulations required the member's entitlement to a Scheme benefit to be extinguished by payment of a

refund and CEP; the member did not have the option to elect for a deferred benefit in lieu of a refund and had, in fact, already been refunded their contributions.

Unfortunately, the actions taken in 2007 did not comply with the statutory provisions in force at that time. This means that as the member has now reached their GMP age it is not possible to reinstate their membership into SERPS in line with the requirements of the LGPS Regulations. Instead, the provisions of the PSA 1993, which override the LGPS Regulations in this situation, must be complied with and a retirement benefit must be paid.

We believe that as the member has been paid and accepted their refund of contributions, only the GMP must now be paid. The total GMP now due payment is £0.21 per week. It is not possible to extinguish this entitlement by payment of a small pots (de minimis) payment as this is not permitted under the LGPS Regulations. A trivial commutation could be paid if the member has no other pension rights or if the capital value of all of their pension rights is less than £30,000. However, if a trivial commutation was not possible, subject to administering authority approval, we would propose to pay the pension annually in advance each April.

## 8. Active member statement checks

Again the key focus of the checks undertaken was to ensure that the expected pension elements were present across the total membership due to be issued with an annual benefit statement. To this end, a number of tests were run against:

- the data that formed the inputs to the calculation routines used to calculate the benefits shown in the annual benefit statements: and
- the calculation outputs that were then used to populate the annual benefit statements.

This ensured that the quality of the data used in the routines employed was of sufficient quality to ensure the accuracy of the retirement benefits quoted. Three groups of tests were applied to the membership for whom an annual benefit statement could be produced and which are scheduled to be issued before 31 August 2019; this numbered 6,565. The tests run encompassed three core areas:

- Calculation routine tests – were performed on the calculation routines employed in the production of the annual benefit statement data to ensure that the routines produced the expected outcomes
- Tolerance tests – were applied to the input data to ensure that the data used in the calculation routines was reasonable
- Exception tests – were employed to ensure that data output used in the population of the annual benefit statements was reasonable and produced the expected outcomes. The annual benefit statement is made up of 5 sections and the data output to each of these sections was tested

The results of the tests run are recorded in appendix 3 and an overview of main tests is given below.

### Calculation routines tested

The eight core calculation routines, inclusive of their subroutines, were tested.

#### CARE pension built at beginning of the Scheme year

Within the pension administration system CARE pension is stored year by year with each Scheme year entry recording the:

- Initial amount of CARE pension earned
- Cumulative revaluation applied on 1 April
- Current level of CARE pension i.e. the sum of the initial CARE pension and the revaluation

We checked that the initial amount of CARE pension recorded had the correct revaluation applied and that the total current level of CARE pension matched the output showing on the extract used to populate the annual benefit statements. In all cases sampled, the extract correctly pulled through the total CARE pension and revaluation built up by the member at the beginning of each Scheme year.

Additionally, if the member was over normal pension age, the routine will add the requisite late retirement uplift to the CARE pension built by reference to the late retirement increase factor and the number of days by which the member exceeds their normal pension age. The targeted testing for this group of members showed that the correct amount of late retirement increase was being calculated and output.

### **Final salary benefits**

If a member has pensionable service before 1 April 2014 we would expect to see a final salary pension and an automatic lump sum if the member had service before 1 April 2008.

Exception testing showed that for some members we were getting an unexpected output i.e. an automatic lump sum when none should be expected. These exceptions related to the augmentation in pensionable service granted by an employer to three members in 2009 whose increase in service had been incorrectly recorded resulting in an automatic lump sum being recorded. These errors have been corrected and further details about this finding can be found in section 6.

We also found a number of members who showed as having service before 1 April 2014 and 1 April 2008 but not the pension and automatic lump sum elements we were expecting to see. In all of the exceptions found, the pension output was correct because the earlier service either related to a member who had joined after 31 March 2008 and transferred their earlier service into the Scheme to purchase a 60<sup>th</sup> service credit or a member who joined after 31 March 2014 and had transferred their earlier service into the Scheme to purchase an earned pension credit. As these were the correct outcomes for this tranche of membership no action was required as the routine had produced the correct output.

In all other cases tested the expected outcome was produced and a final salary pension or automatic lump sum was output on the expected accrual rate.

The final check performed was to ensure that for members over normal pension age, the routine added the requisite late retirement uplift to the final salary pension and any automatic lump sum built by reference to the relevant late retirement increase factor and the number of days by which the member exceeded their normal pension age. The targeted testing employed to this group of members showed that the correct amount of late retirement increase was being calculated and output.

### **Additional pension**

Additional pension details are held in a contracts screen and the amount of additional pension bought is calculated by taking the service or pension to be bought and working out the proportion bought by reference to the number of years and days elapsed in the total contract length for which contributions have been paid.

There are four main methods that can be used to increase a member's Scheme benefits:

- Added years – extra service is bought by the member at either a 60<sup>th</sup> or 80<sup>th</sup> accrual
- Additional Regular Contributions – extra pension is bought by the member

- Additional Pension Contributions – extra pension is bought by the member
- Augmentation – extra service at a 60<sup>th</sup> accrual or extra pension is bought by the employer

Although exception testing identified three members whose pension records contained a data error, the routine employed produced the correct outputs for the type of additional pension recorded as being held. The data for all ongoing additional pension contracts was reconciled with payroll in April when there was a factor change which resulted in the contribution rates changing for members paying additional regular contributions and additional pension contributions.

#### **Total CARE / final salary pension built at end of the Scheme year**

The total pension built at the end of the Scheme year is determined by adding or subtracting the various pension elements received during the Scheme year to the opening position.

The opening position for CARE pension is the CARE pension that was built up by the beginning of the Scheme year inclusive of any applicable late retirement increase. For final salary pension and any attaching automatic lump sum, the opening position is determined by applying the final salary pay earned during the Scheme year to the pensionable service built before 1 April 2014 times the appropriate accrual rate inclusive of any applicable late retirement increase. The routine then adds or subtracts the pension element from either the CARE or final salary pension or the automatic lump sum in line with the table below:

<b>Pension element</b>	<b>Add or subtract</b>	<b>CARE pension</b>	<b>Final salary pension</b>
Main pension built	Add	✓	✗
50/50 pension built	Add	✓	✗
Extra pension bought	Add	✓	✓
Transfer credit in year	Add	✓	✓
Pension sharing debit	Subtract	✓	✓
Scheme Pays debit	Subtract	✓	✓
Automatic lump sum	-	✗	✓
Debit on lump sum	Subtract	✗	✓

A variety of members were tested ensuring that each element used in the routine was tested. The results of these tests showed that the expected total pension and automatic lump sum produced by the routine was correct for all members tested.

#### **Total pension built by normal pension age**

This is derived from the pension built by the end of the Scheme year plus the relevant accrual rate for the period to normal pension age on the annualised CARE pay the member received and any late retirement increase which may be built on the final salary pension and automatic lump sum. The relevant CARE accrual rate of 1/49<sup>th</sup> or 1/98<sup>th</sup> depended on which section of the Scheme the member was in at 31 March 2019.



Additionally, if the member is under normal pension age at 31 March 2019, the routine will add the requisite late retirement uplift to the final salary pension and any automatic lump sum built by reference to the relevant late retirement increase factor and the number of days elapsed between the date the member reaches age 65 and normal pension age.

We chose our test groups based on a range of dates of birth and length of pensionable service.

Where the test group included members under normal pension age, the routine correctly projected forward the extra CARE pension the member could build. Additionally, the late retirement increase on any final salary pension, whether built on a 80<sup>th</sup> or 60<sup>th</sup> accrual, was correctly calculated, as was any late retirement increase on the automatic lump sum.

Where the members were over normal pension age the routine correctly output the message that this section was not applicable to the member as they had passed the Scheme's normal pension age.

Members who joined the Scheme during the Scheme year 2018/19 were also tested and the projections to normal pension age correctly used the member's annualised CARE pay to determine the extra CARE pension the member could build.

### **Death in service lump sum**

The death in service lump sum is calculated as three times the member's assumed pensionable pay (APP). APP is calculated on a three month or 12 week annualised average of the CARE pay a member receives but for the purposes of the annual benefit statements, instead of using APP, we use the annualised CARE pay a member receives as it is broadly equivalent to APP.

Long service, short service (including new joiners in the Scheme year 2018/19), full-time, part-time and term-time members were tested and all produced the expected outcome i.e. the death in service lump sum quoted equalled three times the annualised CARE pay that had been reported for the member.

### **Lifetime allowance**

The lifetime allowance used is determined as 20 times pension plus any automatic lump entitlement the member may have. The annual benefit statement shows the percentage of lifetime allowance used as at the date of the statement and as at normal pension age.

The routine for both of these calculations was tested through sampling and throughout the sample taken the percentage of lifetime allowance used was correctly based on the pension and automatic lump sum reported as held at 31 March 2019 and at the member's normal pension age.

### **Survivor benefits**

- 8.1 Survivor benefits are determined by reference to the member's CARE pension built by 31 March 2019 (if the member is over normal pension age) or projected to normal pension age (if the member is under normal pension age) as well as the final salary pension built by 31 March 2019 excluding any late retirement uplifts.

A range of members with final salary benefits and/or CARE pension were tested and the routine correctly determined the proportion of the member's pension that should count towards the member's survivor's pension for all members tested.

### **Tolerance tests run**

Four tolerance tests were run to test the veracity of the data output used in the annual benefits statements. These tests were designed to ensure that the level of benefits being quoted were reasonable and commensurate with the member's profile.

### **Pensionable pay – CARE Pay v Final Pay**

We ran a comparison to determine if the difference between the CARE pay and final salary pay provided was reasonable and reflective of the member's normal working pattern. We identified 12 cases where we felt the pay reported should be queried with the Scheme employer because the difference between the CARE pay and the final salary pay did not appear to be consistent with or could not be explained by the end of year data provided or the data held in the member's record. Annual benefit statements will be produced for these members once the data queries have been adequately answered.

### **Low & high total pension built up as at 31 March 2019**

We tested the level of benefits being quoted to see if they were reasonable and commensurate with the member's length of pensionable service and earnings. Sample testing within the target groups of low and high total pension entitlements confirmed that, in general, low entitlements were linked to members who had joined the Scheme during 2018/19 or who were in receipt of low pensionable pay; high entitlements were linked to members with high pensionable pay and/or long service.

### **Pension growth for members under normal pension age**

As the annual benefit statements do not make any allowance for increases in final pay between the date of the statement and the date the member reaches normal pension age, the main driver for pension benefits to increase during this period is expected to be due to future CARE pension accrual. Future CARE pension accrual is projected on the basis of the member's saving behaviour as at the date of the statement. So if a member is in the Main section at 31 March 2019, the projection will assume all future service will be in the Main section and vice versa.

Consequently, we would expect to see little growth in the pension between 31 March 2019 and normal pension age for any member who was low waged or who was close to their normal pension age.

For younger members we would expect to see larger pension growth between 31 March 2019 and normal pension age due to the longer period they are expected to remain contributing to the Scheme. If the member is in the Main section then the pensions growth is expected to be more pronounced.

Similarly, for high earners in the Main section we would expect to see larger pension growth between 31 March 2019 and normal pension age.

Sample testing within the target groups of large and small differences in CARE pension entitlement produced the outcomes we were expecting.

### **Final salary pension and automatic lump sum**

The normal pension age for final salary benefits is age 65 and the projections to normal pension age on the annual benefit statement is to State Pension age or, if later, age 65. Consequently, where the member is under age 65 at 31 March 2019 we would expect the value of the final salary benefits showing at 31 March 2019 to be lower than the final salary benefits at normal pension age as the final salary benefits projected to normal pension age should include late retirement increases.

The reason for this is because the projection to normal pension age is based on the normal pension age under the current Scheme regulations and not the member's 65th birthday, which is the normal retirement date for the final salary pension. For this tranche of member the normal pension age is equal to the member's State Pension age which will always be over age 65. This will result in increases building up from the member's 65th birthday because the final salary pension, which is due payment on normal terms from the member's 65th birthday, is being projected to start payment from the member's State Pension age.

The test to compare final salary pension and lump sum at normal pension age against final salary pension and lump sum built by 31 March 2019 showed that the benefits quoted at normal pension age were higher and that the difference was attributable to late retirement increases.

## Exception tests run

Only the key exception test results have been covered in this section. A full breakdown of the exception tests run, the findings of these tests and actions taken can be found in appendix 3.

### Presence of correct pension elements

Tests were run to ensure that a final salary pension and automatic lump sum was present for members who held pensionable service before 1 April 2008. Four exceptions were found where an automatic lump sum was output when none should be present. Three of these exceptions related to members who were granted an augmentation, by their employer, to their 60<sup>th</sup> service; the action taken to correct these records is detailed in section 6. The final exception related to a member who had an incorrect benefit code attached to their service line which caused the calculation routine to treat the service as 80<sup>th</sup> service instead of 60<sup>th</sup> service. This member's pension record and the data used to populate the annual benefit statement have been corrected.

For members with pensionable service before 1 April 2014 a check was done to ensure that a final salary pension was held. Two exceptions requiring action were found; both related to members who opted into the Scheme in 2013 and who were set up as zero hour contractors. The first of the members was actually in full-time employment at the time of opting in and paid pension contributions from their date of joining; this member's pension record and the data used to populate the annual benefit statement has been corrected. The data error for the second member has been referred back to the employer as it is unclear from the information held on the member's record as to how much of the member's service between 1 February 2013 and 31 March 2014 should be treated as pensionable.

For members with service after 31 March 2014 a check was done to ensure that a CARE pension element was held. There were no exceptions requiring any remedial action.

### Divorce debits

Please refer to section 4 of this report.

### Scheme Pays debits

Please refer to section 5 of this report.

## 9. Statements that could not be issued

There were a number of members for whom an annual benefit statement could not be issued at the time of writing this report. However, as we will continue to issue statements to members where outstanding enquiries with Scheme employers are answered or the cases in backlog are cleared, the actual numbers not issued by 31 August 2019 will be confirmed on 2 September. We will also confirm the activity planned to clear the backlog and issue the statements to members.

Members who are entitled to an annual benefit statement and for whom we are unable to issue a statement to will be notified in writing during the week commencing 2 September. These members will be advised of the reason as to why it was not possible to issue a statement to them and when we would expect to be in a position to issue their statement to them.

# 10. Summary

We believe that this report and its appendices contain the confirmation sought by the Scheme Manager that:

- a robust process was in place to control the data received from Scheme employers and test the quality of the data received
- the data used in the calculations to generate the data output to the annual benefit statements was tested for accuracy
- the calculation routines used to populate annual benefit statements were tested; and
- corrections were made where errors were identified in the data inputs used or the calculation routines used to generate the Scheme benefits that were output to annual benefit statements.

The tests which were run:

- against the data that formed the inputs to the calculation routines used to calculate the benefits shown in the annual benefit statements; and
- on the calculation routines that were used to produce the outputs showing on the annual benefits statements

Means that the benefits statements issued for the Scheme year 2018/19 accurately reflect the entitlements that the members have in the Scheme.

By combining targeted and random sampling with tolerance and exception testing, issues, which might otherwise have gone undetected, were identified. For example, two out of ten members recorded as zero hour contractors with no reckonable pensionable service before 1 April 2014 were identified under the exception testing performed as being due reckonable pensionable service.

Additionally exception testing helped to confirm that calculation routines were working as expected. For example, councillors who continued in pensionable service after 31 March 2014 had their pensionable service calculated using the correct benefit structure; final salary 80<sup>th</sup> accrual.

Finally, where unexpected results were found which could be indicative of a systemic error, such as the number of pension debits recorded, a full and thorough investigation was conducted to verify the integrity of the data used.