

Berkshire Joining LPP



Pension Administration Implications and Issues

Introduction

This note sets out some of the implications and issues for pension administration resulting from Berkshire joining the Local Pensions Partnership. This note has been prepared in the context of LPP's commitment that all existing Berkshire staff, within the scope of the services to be delivered through LPP will transfer under TUPE and that a local presence will be maintained in Maidenhead.

LPP's Approach to Pension Administration

LPP currently provides pension administration services for 12 customers across the Local Government, Fire and Police pension schemes and the Teachers' Compensation Scheme. We handle the pension records of over 0.5m members and deal with over 1,000 employers. As with all public sector schemes these schemes have all become increasingly complex in recent years. The administration business currently has bases in Hertford, London and Preston.

LPP's approach to pension administration, recognising the increasing challenge of the administration task for public sector schemes is founded on two pillars:

- Close engagement with scheme members and employers
- Good data

By engaging effectively with stakeholders of all sorts we are able to maintain good data. This is essential because it means that benefits can be calculated correctly and on time, and, importantly, that the liabilities of a scheme can be valued more accurately. Good data also make it easier to ensure that the scheme can comply with relevant regulatory and disclosure requirements.

It is clear from discussions with Berkshire Fund officers that this is an approach shared by both organisations.

LPP also provides a range of "employer management" related services (e.g. covenant assessment and admissions and terminations) which altogether offer a holistic approach to the activities required to run a pension fund. These are not discussed further here.

LPP is in the process of transforming and integrating the administration business so that it operates as a single integrated whole, with the goals of exploiting the benefits of scale and the ability to carry out significant parts of the business in lower cost locations. The aim currently is for this transformation to be reflected across the operation from April 2018.

Comparing the Current Operations

LPP has carried out a limited desk top review of budgetary and statistical information for the Berkshire administration operation in comparison with the current LPP operation, together with a limited review of publicly available information provided to fund members. It should be emphasised that this has been a narrow piece of work and that a comprehensive due diligence process (for both Berkshire and LPP) would form part of the process of welcoming Berkshire into LPP.

The broad conclusions of our reviews are:

- Using crude productivity measures Berkshire's administration team demonstrate levels of productivity in line with LPP's current levels.
- Performance against published measures is similar across both organisations.
- Berkshire's current crude unit costs are within LPP's proposed post integration price range.

When the overall similarity in approach to the way our two organisations handle administration is added to this, there are clearly significant similarities which would appear to create a good fit between the two organisations.

What Potential Benefits Can We Deduce From the Comparison?

While the comparison work undertaken has been limited there a number of things that can be deduced from it.

Firstly, given the constraints imposed by the TUPE process and the commitment to maintaining a local presence, it seems unlikely that material cost reductions will be deliverable for Berkshire in relation to administration at the point of joining LPP.

Secondly, with the Berkshire operation becoming part of a larger whole there will be opportunities to increase resilience in some areas. For example:

- Payroll – this is an obvious target area. A single function handling all payment activity will provide greater resilience and also the opportunity to improve financial control through better segregation of duties.
- Technical support and advice, and system control functions - similar benefits can also be achieved in these areas, particularly in relation to the system control functions which are required for any function which is heavily dependent upon ICT. Such benefits can be two way; there are areas where the investment already made by Berkshire could improve the wider LPP offering, e.g. member focused publications is potentially one such area.



Local Pensions Partnership

- Implementation of scheme changes – being part of a larger whole will provide Berkshire with access to the support and resources to cope with the continual changes impacting on the administration of public sector pension schemes; as a collective of funds forming part of the LPP administration business, we will avoid significant costs by only doing things once rather than multiple times when dealing with regulatory change.

In the medium to longer term, it is possible to see areas where further reductions in cost could develop. These include:

- The renegotiation of supplier contracts within the larger whole, or the letting of single contracts for the larger single organisation.
- As staff turnover occurs it may be possible to absorb some work elsewhere within the larger organisation.

In the shorter term it is also possible to see how some activity (e.g. direct member and employer engagement) related to existing LPP clients in West London could be delivered from Maidenhead resulting in some small sharing of costs.

While no detailed work has been undertaken on the optimum way to integrate the Berkshire administration team into LPP's single operating model the one given will be that scheme member calls would be handled through LPP's own contact centre. This in itself enhances productivity by ensuring that caseworkers are not spending time handling routine queries. The contact centre will also, as a matter of course, actively promote take up of on line self-service, which further reduces the need for members to contact the Fund directly.

Conclusion

At this stage it would be appropriate to assume that financially transferring Berkshire's administration service to LPP would be neutral for the Berkshire Pension Fund. There are, though, benefits in terms of increased resilience and the ability to handle the significant changes which continue to confront administration teams.