

Chief Executives of Local Authorities in England
and Wales

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Dear Colleague,

LOCAL GOVERNMENT PENSION SCHEME – DATA QUALITY

The department recently concluded a statutory consultation exercise about future cost sharing arrangements for the Local Government Pension Scheme (LGPS) to provide the initial stages in its full introduction and implementation in England and Wales.

The first steps are to put in place a statutory requirement for each LGPS pension fund authority to provide the Secretary of State with the same data they provide their fund actuary at the time of the actuarial valuation due next at 31 March 2010. This allows a national model fund to be set up from which it will be possible to determine equitably the cost both to employees and employers of future accruals of pension rights and the experience and on-going effects of actuarial valuation exercises.

Responses to the current consultation highlighted issues relating to the provision of quality data. In particular, it has been suggested that LGPS pension funds cannot comply with the originally proposed date of 31 July in the draft regulations because the data would not be in a cleansed format suitable for the proposed statutory cost-share exercise.

This early warning about data quality in the proposed statutory timetable adds weight to administering authorities' insistence about receiving consistent quality data within a reasonable time scale, not just for the new cost share arrangements but also for their normal day to day management and operation of the Scheme, especially when managing administration agreements with employers.

Administering a pension scheme the size of the LGPS is a major and costly business. The most recent data available shows expenditure on administration of the LGPS in England and Wales totalled £113 million. It is vital, therefore, that the processes involved in sharing and providing data (principally HR and payroll information) is managed to the highest standards to protect funds from irregularities (including overpayments and potential fraud) but, perhaps, more importantly to ensure that statutory responsibilities are undertaken in the most efficient and value for money manner.

There is some concern that if this is not necessarily the case it could mean that employers are having to pay a higher, contribution rate than may be strictly necessary since the actuary, for example, is obliged to make more cautious assumptions based on non-validated items. Applying targeted resources to improve the level and standards of data quality in order to provide correct data and within acceptable timescales to the administering authority may actually result in savings for each individual employer.

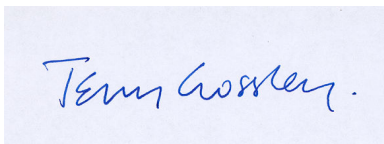
Regulatory steps have been introduced to the LGPS to improve data through the obligation to provide annual benefit statements and more latterly a provision to allow pension funds can enter into formal service level agreements with employers with the aim of improving data quality and controlling costs.

Continuing in this vein, the department, sees it as vital, in the period between now and the next actuarial valuation in 31 March 2010, that positive action is taken at both administering authority **and** at employing authority/employer level to improve the quality and timeliness of data flows and so help to achieve much smoother valuation exercises. This in turn will achieve the benefit of helping to ensure a more accurate and efficient modelling exercise for the cost-sharing process which, of course, becomes an essential step towards maintaining Scheme cost stability, affordability and sustainability.

It would be helpful to know if you were able to advise what steps your authority has taken to put in place an administration agreement with scheme employers, and what steps you propose to take to improve the quality of regular data flows to meet the challenges set out above in the context of the upcoming cost-share arrangements.

I am sending copies of this letter to Scheme pension managers and to members of the Association of Consulting Actuaries Local Government sub-committee.

Yours sincerely,

A rectangular area containing a handwritten signature in blue ink that reads "TBJ Crossley".

TBJ Crossley