

## The McCloud Impact Assessment

### Background

1. This paper explores the impact of McCloud, which is likely to have a big effect on pension administration.
2. It tries to anticipate the potential effects of the changes and it considers the resources that are likely to be required in order to implement them efficiently.

### Content

1. The impact of the proposed McCloud remedy is wide ranging and will affect pension administration in several ways. This will require both tactical and strategic planning in order to ensure that the right resources in the right measure are available at the right time.
2. It is estimated that about a third of the membership could be affected by the remedy and we should not underestimate the scale of the project or the resources it will require.
3. The proposed underpin has retrospective effect and affects members who;
  - were active on 31 March 2012
  - accrued benefits after 31<sup>st</sup> March 2014
  - must not have a disqualifying (5 year) break
  - immediate entitlement to pension benefits no longer required
  - only covers aggregated benefits
  - takes early and late retirement factors into account (pre-2014 = lighter reductions)
  - includes death/dependant's benefits, club transfers, transfers-out and trivial commutations

- two-stage process with a provisional check at the later of the date of leaving and the underpin date and a definitive check at the date the benefits are drawn

### **Priorities**

4. Members who were active on 31st March 2012, accrued benefits after 1<sup>st</sup> April 2014 and who have died, retired, transferred out or left must be prioritised. This is because the payroll and the membership records required to calculate final salary benefits are gradually degrading and the six-year requirement to maintain payroll records has already expired for some members. Moreover, some employers will have changed payroll providers, lost experienced payroll managers and suffered other misfortunes that can slowly erode data quality.
5. This is a real challenge as details of final pay, part-time hours, changes of hours, aggregated concurrent employments etcetera may not have been maintained since 2014.
6. We may need to expand our address tracing as we must be able to contact all the leavers who are affected as soon as possible.
7. Members should be reassured that they will be protected automatically and there is no need for them to take any positive action.

### **Communications**

8. A structured communication plan is vital;
  - use generic materials produced by SAB/LGA as much as possible.
  - Calibrate messages for the intended audience (e.g. members and employers)
  - use regular newsletters to reach the widest possible audience
  - post information on the website
  - use payslips and ABS to send succinct targeted messages
  - update standard forms / letters intended for members and third parties
  - produce general letters explaining the underpin to members
  - draft specific letters explaining the provisional underpin to leavers
  - explain that there may be annual / lifetime allowance implications

### **Resource**

9. There will be several work streams demanding substantial resource.

10. Identify an internal candidate to lead the project and a small core (perhaps one or two skilled individuals) of dedicated staff which we can augment with existing resources, external resources and possibly new recruits (being mindful that new recruits are an investment as existing resource will be diverted in order to train them) as necessary.
11. It is crucial that employers appreciate that they will have to allocate resources to collate the information required as, otherwise, the project team will be will not be able to operate efficiently.
12. A forward plan should be designed as soon as possible complemented by liaising with scheme employers, recovering/cleansing data and identifying and locating resources.
13. All qualifying leavers must be identified and have their pension benefits reviewed as soon as possible in order to determine whether the revised underpin will provide better pension benefits.
14. The employers will have to be contacted promptly in order to optimise the data available and to give them the best chance of recovering / reconstructing incomplete records.
15. Data collection will consume significant additional resources in both employing authorities and administering authorities.
16. The SAB, software houses and professional advisors will provide generic services; however, where additional resources are needed, they should be sourced from the Framework where possible.
17. It is critical to engage with software providers, both individually and collectively within the LGPS, as soon as possible. In addition, all interfaces, in-house spreadsheets (for membership/benefit calculations), workflows and process maps will need to be updated.
18. Although some of the work can be performed electronically this process will require substantial manual intervention and this, in turn, involves identifying resources.
19. A suitable candidate should be identified to lead the project, allocate dedicated resources and second/recruit staff with the right skillsets to deliver it.
20. It is important that internal resources are used as much as possible to imbue the Administration Team with a sense of responsibility; however, realpolitik dictates that additional resources will be needed, and they should be chosen wisely.

#### **Additional resource**

21. We should use our existing professional advisors for additional work as far as possible while trying to optimise our savings by judicious use of the Framework.

22. The usual contractors can be considered for processing calculations, although experience suggests that their performance benefits from close monitoring.
23. We should also consider using larger LGPS administering authorities with experienced staff and spare capacity as they will be mindful of their reputations and working together may develop our staff.
24. We should consider building alliances, in order to negotiate economies of scale, and use the Framework at every opportunity.

### **Funding strategy considerations**

25. Our actuary adopted a pessimistic view of the potential McCloud remedies and built a prudent contingency into the funding model at the last valuation. The final remedy should be known by the time the employer's contributions are set at the next valuation and, hopefully, we can consolidate our funding position without significant increases in employers' contributions.
26. It may be prudent to pause any bulk transfers (in or out) and other significant cost sensitive work until the final McCloud remedy is known. Equally, the actuary should build a prudent margin into any exit calculations until the situation has resolved itself.
27. The generous provision set aside for McCloud means that the potential impact of the remedy is already accommodated in the IAS19 and FRS102 accounting models in Surrey Pension Fund.

### **Conclusions**

28. It is important to note that the draft solution may not be the final solution and we should focus on generic preparations that will stand us in good stead regardless of whatever the final remedy may be.
29. Fairly accurate assumptions can be made about the resources that will be required and considered steps should be taken to secure them ahead of the inevitable rush.

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