



National Audit Office

Report

by the Comptroller
and Auditor General

Cabinet Office

Investigation into members' experience of civil service pension administration

Summary

What this investigation is about

1 This investigation examines the quality of pension services provided to members of the civil service pension schemes and government employers over the past 18 months. MyCSP administers the civil service pension schemes, which have 1.5 million current and former public sector employee members (**Figure 1**). In September 2014, MyCSP brought pension payroll and certain member administration services in-house. These were previously provided by Capita under a contract assigned to MyCSP by the Cabinet Office. At the same time MyCSP also introduced Compendia, its new pension administration IT system, which provided the platform to administer the pensioner and deferred members.

2 Following these changes, we heard reports of problems with the quality of services from MyCSP. These included cases of missed and delayed payments to pensioners and cases of poor communication that prolonged uncertainty about members' entitlement, causing hardship and distress. Two scheme members contacted the Chair of the Committee of Public Accounts, who referred the matter to the Comptroller and Auditor General.

3 There are a number of stakeholders involved in the delivery of the administration of the civil service pensions. MyCSP depends on the participating employers and, where applicable, their shared service providers, for the provision of complete and accurate membership data on a timely basis. Where this is not provided, delays in providing quotations or making awards will occur that are not of MyCSP's making but members may perceive MyCSP as being at fault. To illustrate the range of stakeholders and the interfaces and dependencies involved, **Figure 2** on page 6 provides an example of the award process for active members.

4 Most employees of the National Audit Office (NAO), including those who conducted this investigation, are civil service pension scheme members. Some employees of the NAO were personally affected by the matters investigated in this report. The audit team were not personally affected.

5 This investigation sets out:

- **the problems experienced by members and employers** (Part One);
- **the cause of these problems** (Part Two); and
- **ongoing issues and challenges** (Part Three).

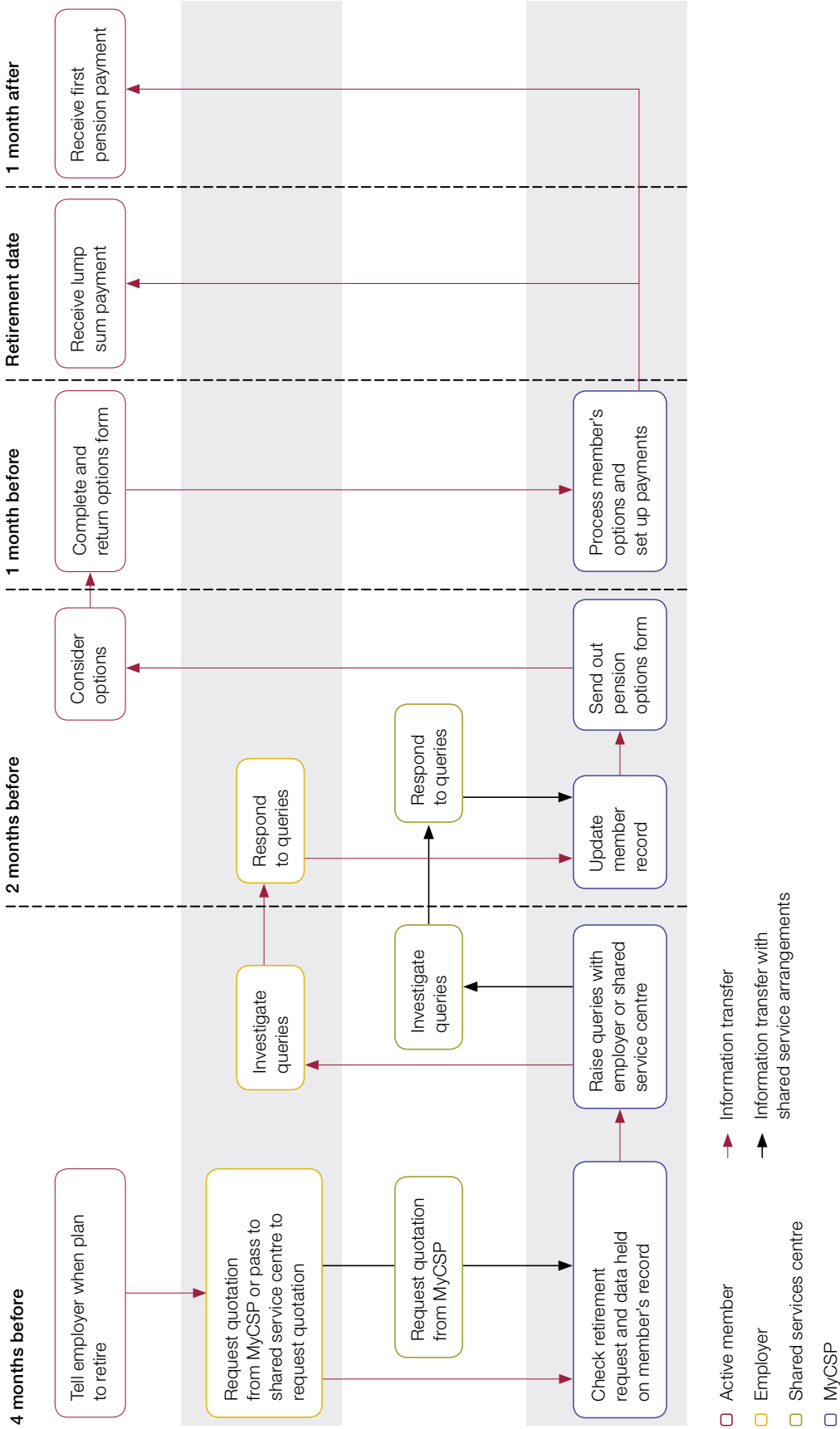
Figure 1

Background and glossary

The civil service pension schemes (The schemes)	There are two civil service pension schemes. The Principal Civil Service Pension Scheme (PCSPS) is the unfunded, defined benefit, contributory public service occupational pension scheme for civil servants made under the Superannuation Act 1972. PCSPS consists of four scheme sections (Classic, Classic Plus, Premium and Nuvos) with differing benefit structures and scheme rules. The Civil Service and Others Pension Scheme (known as Alpha) is the new unfunded, defined benefit, contributory scheme that came into force from 1 April 2015. Many PCSPS members transferred to Alpha on that date, while others will transfer over the next few years. The PCSPS is now closed to new members.
Scheme members	As at 31 March 2015 there were 1.5 million pension scheme members, made up of 639,000 pensioners, 493,000 contributing employees and 341,000 members who no longer contributed to the scheme but had preserved pension entitlements (deferred members).
MyCSP	The schemes are administered by MyCSP. MyCSP is owned in part by the Cabinet Office on behalf of the government (24%), in part by its employee partners (25% held in trust for them by MyCSP Trust Company Ltd) and in part by the private sector partner and investor Equiniti (51%). For further background see Appendix Two.
The migration of services	Before its creation in 2010, MyCSP's functions had been part of the public sector, with a complex and fragmented delivery model. The Cabinet Office contracted out pension payroll services and deferred member administration to Capita. That contract was assigned to MyCSP in 2012. The intention was that when the contract ended in October 2013, all services would be brought in-house and operated by MyCSP. This was postponed and the contract was extended to September 2014.
The new pension administration system	MyCSP's new pension administration IT system, Compendia, was launched at the same time as the migration. This involved amalgamating all member records, previously held in six separate data centres, plus the Capita payroll database, and transferring them to a single database accessible across all MyCSP sites.

Source: National Audit Office

Figure 2 End-to-end active member pension administration process



Source: National Audit Office analysis

Key findings

The performance issues

6 Some scheme members have experienced serious problems with the way their individual cases have been processed. Our initial enquiries with employers led us to dozens of individual stories of hardship, distress and inconvenience caused by late payment of pensions, difficulty in getting in touch with MyCSP and failure to provide accurate and timely information on pension entitlement. These were caused by four different sets of problems with the administration of pensions over the past 18 months (**Figure 3** on pages 8 and 9):

- a When MyCSP ran the payroll for the first time in September 2014, 14,703 pensioners who lived overseas were paid their pensions up to 7 days late and 99 were not paid at all in September.** MyCSP did not fully understand Capita's payment practices. This meant it did not issue the payments before the due date to allow for the extra time needed to make an international payment. In the case of the 99 who were not paid in September problems with the members' banking details meant that MyCSP had to request new banking mandates from these members before payment could be reinstated (paragraphs 2.15 to 2.17).
- b Following migration, MyCSP could not cope with the increase in calls and emails.** Between September 2014 and March 2015, MyCSP failed to answer 99,400 calls. During the migration, there were 59 staff working at MyCSP's contact centre. MyCSP has since increased this to 100. MyCSP also opened the contact centre at weekends at the busiest period to help cope with the demand. Many of the members who were able to get through complained that the contact centre could not say when their request would be dealt with (paragraphs 2.32 and 2.34).
- c A backlog of work grew at MyCSP.** MyCSP did not have sufficient staff to process the 14,000 items of work inherited from Capita and the 40,000 data issues requiring attention caused by migration of the system. A backlog grew between September 2014 and January 2015. This peaked at 22,000 urgent cases in January 2015. The backlog of urgent cases was cleared in March 2015 (paragraphs 2.18 to 2.27).
- d Members did not receive the information they needed on time.** In some cases members who were waiting for a retirement quotation or new payment did not receive their quotation or payment until after they retired. Others could not get a statement of their entitlement to help them with their planning as, with the agreement of the Cabinet Office, production of ad hoc statements was temporarily suspended in most cases (paragraphs 1.1 to 1.4 and 2.29).

Figure 3
Timeline of performance issues

Wider environment

Large number of voluntary exits

Apr 2014
Pension freedoms announced
Several large bulk transfers into scheme

Scheme processes

Migration timetable slippage

Stabilisation period

Jun 2014
Quality assurance checks ceased

May 2014
Internal audit warned of potential issues

Sep 2014
Migration of payroll services from Capita to Mycsp
Mailshot to 1.1 million members (excluding overseas pensioners)

Jan 2015
Cabinet Office became aware of the full extent of backlog



Member experience

Sep 2014
a 14,703 overseas pension payments delayed by up to 7 days

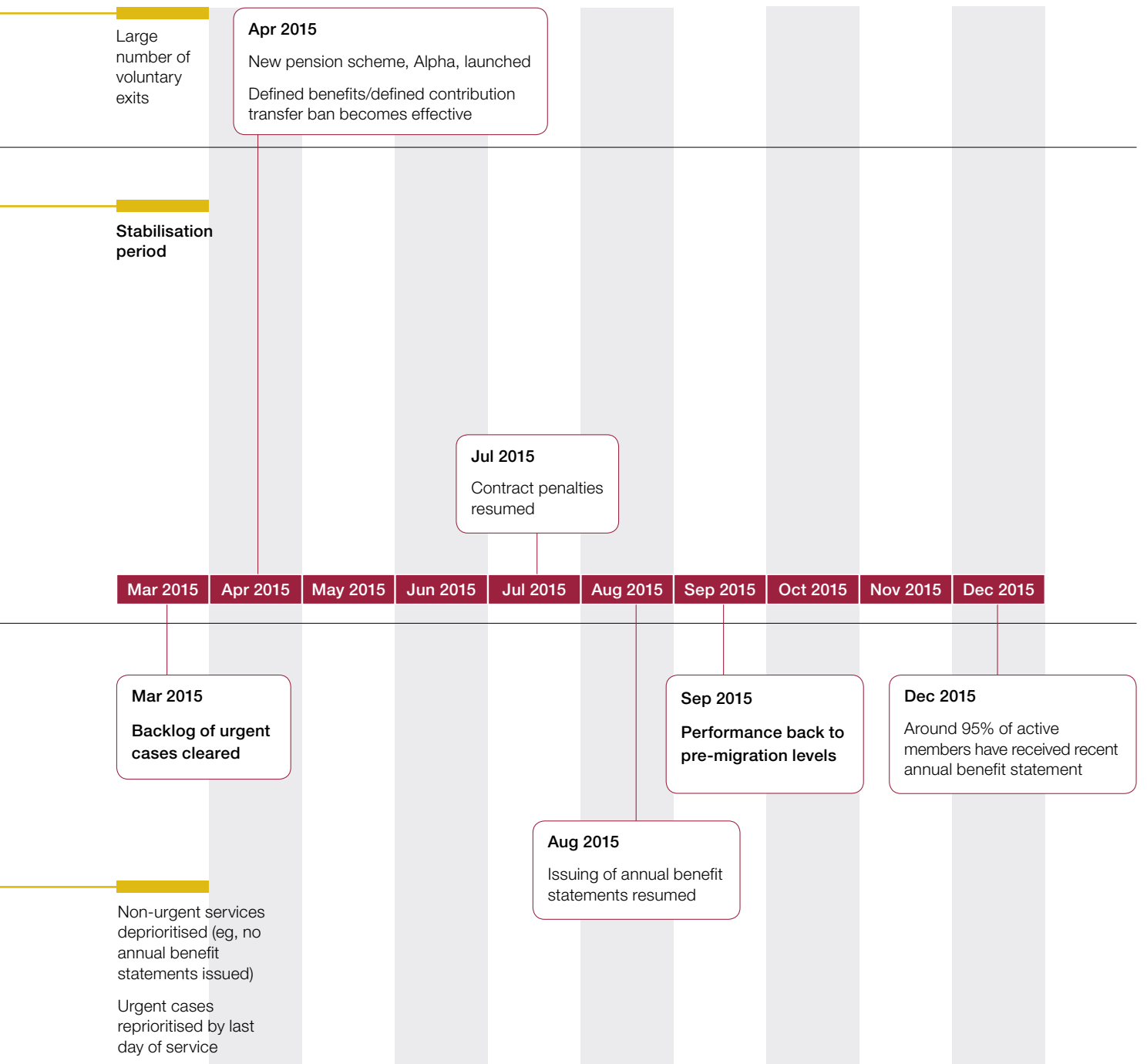
Jan 2015
Backlog of urgent cases peaked at 22,000 cases

Capita's performance declined

- b Increased calls to contact centre, difficulties in getting through
 - c Backlog of new cases built up
 - d Delays in receipt of quotations and new payments
- Non-urgent services deprioritised (eg, no annual benefit statements issued)
Urgent cases reprioritised by last day of service

Note

1 References in the figure are to the numbered list in paragraph 1.



The payroll failures and creation of the backlog

7 MyCSP was unable to properly test its new pension administration system.

MyCSP's new pension administration IT system, Compendia, was not fully ready at the time of the migration and was not able to make payments until shortly before the migration. MyCSP was also not able to dry-run its administration of the casework transferred from Capita, although it did embed staff at Capita's site. Capita and MyCSP also disagree on the complexity of the cases transferred (paragraphs 2.5 and 2.22).

8 MyCSP had far more casework to complete following migration than it expected.

MyCSP expected 10,000 to 12,000 items of work in progress casework to be transferred from Capita, such as payment of new awards or notifications of a change in circumstance. MyCSP told the Cabinet Office that there were 54,000 items of work in progress at the point of transfer. These included around 40,000 member records with data issues flagged by its new Compendia system at the point of data migration. These records required a manual intervention to resolve. Capita disagreed that these 40,000 additional cases should be considered as part of the work in progress (paragraphs 2.18 to 2.22).

9 MyCSP's systems made prioritising clearance of the backlog more difficult.

MyCSP's work management system was configured to reflect and monitor performance in line with the contract requirements. This meant that cases were prioritised based on when they arrived. This was not helpful once the backlog had built up because it did not allow staff to identify and prioritise cases that required urgent action (paragraphs 2.37 to 2.38).

The steps taken to recover the situation

10 The Cabinet Office told MyCSP in January 2015 to develop a plan to tackle the backlog.

It was only after the Cabinet Office asked MyCSP to manually count the backlog of outstanding work in January 2015 that the Cabinet Office and MyCSP became fully aware of the scale of both the backlog of delayed payment cases and complaints. The Cabinet Office asked MyCSP to prioritise the most urgent items and develop a plan to stabilise the business by the end of March 2015. In agreement with the Cabinet Office, MyCSP stopped some other activities, such as issuing members with annual benefit statements (paragraphs 2.24 and 2.28 to 2.29).

11 By September 2015 MyCSP had returned the business to the performance levels before migration.

By the end of March, MyCSP had cleared most of the category 1 and 2 items in accordance with its stabilisation plan. By September, MyCSP's monthly progress report showed that it had met all key service levels and that call-handling had improved to pre-migration levels (96%). Complaints, while still high (428 received in the month), were falling (paragraphs 2.27 and 2.39).

12 MyCSP has received no financial penalty for its performance over the migration. The Cabinet Office told us that it suspended contract service credits in the year before migration. If imposed, these would have amounted to around £90,000. The suspension continued until June 2015 because the Cabinet Office asked MyCSP to process cases according to key event dates rather than on the first-come-first-served basis specified in the contract (paragraphs 2.42 to 2.43).

Poor data quality about member entitlement

13 Members and employers continue to report problems in getting accurate and timely information from MyCSP about their pension entitlement. MyCSP agreed with the Cabinet Office to temporarily suspend the issue of benefit statements because of poor data quality and the concern that sending them would lead to a poor customer experience, an increase in member queries and a build up of a new backlog. The production of annual benefit statements recommenced in August 2015 and by the end of 2015 MyCSP were reporting that some 95% of members had received a statement (paragraph 2.29).

14 There is a longstanding issue with the reliability of active member data. The Comptroller and Auditor General qualified his opinion on the civil superannuation pension accounts for the years 2010-11 and 2011-12 and reported on the poor quality of the data in 2011, 2012, 2013 and 2014. MyCSP estimates that 77% of active member records contain inconsistencies or are inaccurate. Many of these data-fails will have no impact on the accuracy of any calculated pension benefit, but 6.5% of the member records are inaccurate such that the annual benefit statement produced would misstate the value of the member's pension benefits (paragraphs 3.2 to 3.8).

15 Inaccurate data should not affect pension payments but prolongs the time necessary to issue quotations and determine new pension awards. MyCSP 'cleans' the data before issuing a quotation or making a new payment. It is often necessary to contact the current and former employers or the member to resolve queries or apparent inconsistencies. Inaccurate data also hampers MyCSP's ability to provide members with accurate benefit statements, which members need to understand the value of their benefits and to plan their financial affairs (paragraphs 3.9 to 3.11).

16 The new civil service pension arrangements require much more robust data. There are a number of developments in civil service pensions which place a greater premium on the availability of accurate data, such as the Annual and Lifetime Tax Allowances and the introduction of the Alpha scheme based on career average salary, which requires MyCSP to collect and maintain accurate data for all years of service. This depends on employers understanding and meeting their responsibilities to provide these data (paragraphs 3.12 to 3.17).

Improvements required to the governance of the end-to-end service

17 Resolving the data issues will require coordinated cross-government action.

The active member data is provided by employers, and they will need to participate in any exercise to correct the historical data. This will be a major exercise (paragraph 3.18).

18 The Cabinet Office is working to improve governance of the scheme.

The Cabinet Office has established a joint improvement plan with MyCSP. This covers a range of initiatives aimed at improving overall governance of the scheme, such as restructuring key roles within the Cabinet Office, creating a contract management group forum and enhancing monthly performance management information. This work needs to be extended to ensure that governance enables the effective working together of employers, Cabinet Office and MyCSP (paragraphs 3.19 to 3.30).

Recommendations

19 The Cabinet Office and Civil Service Pensions Board need to:

- a** work with employers and MyCSP to produce a plan as to how data will be cleansed and properly maintained. This includes determining who pays for the data cleanse;
- b** continue to reform the governance of the Civil Service pension schemes to ensure that employers are properly involved;
- c** performance manage MyCSP and involve employers in that management;
- d** consider and disseminate the lessons from the migration and the subsequent problems for the wider programme of shared services across government, where the centre is responsible for managing outsourced services on behalf of other central government services, and the wider programme of mutual joint ventures; and
- e** define clear roles, responsibilities and interfaces for the complex end-to-end process of civil service pension administration based on the outcome of the recommendations above.