

**The London Borough of Havering  
Pension Fund**

**Local Government Pension Scheme**

**Charging Policy**

**November 2018**

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## Contents

Introduction	3
Policy	4
Glossary of terms	4
Cost chargeable to the Fund	5
Cost chargeable to employers	5
Costs associated with new employers joining the Fund	5
Costs associated with changes to continuing employers	6
Costs associated with ceasing employers leaving the Fund	6
Additional tangible costs	7
• Bespoke costs	7
• Excessive costs in relation to new, ceasing or changing employers	7
• Accounting Reports	7
• Poor performance recharges	7
Circumstances where costs might be recovered as the result of poor performance	7
Calculation of costs incurred	8
Interest payments on retirement benefits	8
Late payment of contributions	8
Pension Strain Costs	10
• Redundancy	10
• Ill-Health Retirements	10
Applicability	11
Ownership and authorisation	11
Further Information	11

## **Introduction**

### **Purpose**

In recent years there has been a significant increase in the amount of fees the Pension Fund spends on legal and actuarial work, largely as a result of an increased number of employers joining, leaving and changing their status within the Fund.

These fees can be spread across all employers, proportionately to their size, although the activity tends to be the result of decisions made by a small number of employers. Alternatively, these fees can be charged to the relevant scheme employer directly.

This policy aims to set out what charges should be met by the relevant scheme employer directly rather than cost being met by all scheme employers.

Pension Fund charges are set out within the Local Government Pension Scheme Regulations 2013 and The Pension Regulator (TPR) Code of Practice 14 - Governance and Administration of Public Service Pension Schemes. .

### **Aims, objectives and outcomes**

The aim of the policy is to deliver value for the members of the Havering Pension Fund, which will help to deliver customer satisfaction with the Council by helping to deliver spend within budget.

### **Policy summary**

A clear and concise guide to what charges may arise for Scheme Employers and which Scheme Employers will be responsible for which charges.

### **Scope**

The policy covers all costs outside of the standard costs, for services provided to support Scheme Employers in delivering their legislative responsibilities.

### **Timescales**

The policy is applicable until updated or reviewed due to legislative, regulatory or audit requirement change.

## Policy

A charging policy has been approved by the Havering Pension Fund Committee that clearly sets out the charging policy to cover fees for legal and actuarial work carried out in relation to the Local Government Pension Scheme (the Scheme).

From 1 November 2017, the London Borough of Havering (the Administering Authority) delegated the pension administration service to Lancashire County Council (LCC) who engaged the Local Pensions Partnership (LPP) to undertake their pensions portfolio. LPP was formed in 2016 through a collaboration between LCC and the London Pensions Fund Authority (LPFA) and provides pension services to the Local Government Pension Scheme, police, firefighters and other public sector funds.

## Glossary of terms

**Administering authority:** the local authority which manages the pension fund

**Scheme employer:** an employer participating in the Local Government Pension Scheme

**Letting authority:** the local authority or other scheme employer which is outsourcing a public service or function

**Contractor:** the company or organisation providing the service outsourced by the letting authority or other scheme employer

**Scheduled Body:** All 1st and 2nd tier Local Authorities and Academy Schools

**Resolution (Designating) Body:** Town and Parish Councils

**Admission Body (including Transferee Admission Body and Community Association Admission body):**

- a body which provides a public service in the United Kingdom which operates otherwise than for the purposes of gain and has sufficient links with a Scheme employer for the body and the Scheme employer to be regarded as having a community of interest (whether because the operations of the body are dependent on the operations of the Scheme employer or otherwise);
- a body, to the funds of which a Scheme employer contributes;
- a body representative of any Scheme employers, or local authorities or officers of local authorities;
- a body that is providing or will provide a service or assets in connection with the exercise of a function of a Scheme employer as a result of:
  - the transfer of the service or assets by means of a contract or other arrangement (i.e. outsourcing),
  - a direction made under section 15 of the Local Government Act 1999,
  - directions made under section 497A of the Education Act 1996;
- a body which provides a public service in the United Kingdom and is approved in writing by the Secretary of State for the purpose of admission to the scheme

## Costs chargeable to the Fund

### Standard Costs

Most costs to the Fund will continue to be charged by the Actuary proportioning them to all employers, based on size, as part of the Triennial Actuarial Valuation exercise. These are then picked up by employers through their employer contributions. We already consider these costs to be spread across by employers in a fair manner and therefore this method will remain unchanged.

Examples of costs included in this category:

- Governance costs
- Benefits administration
- Payroll processing for pensioners
- Actuarial fees associated with completing the triennial valuation
- Investment management costs
- Audit Fees
- Most other administrative work and officer's time

However, some costs are more specific and are incurred as a result of the decision and actions of a particular employer. Therefore it is fair that these should be paid by the employer who generates them, rather than being shared across all employers.

A quotation of the fees and charges will be provided on request, and Scheme Employers are encouraged to contact the Pensions Projects and Contracts Manager at the earliest opportunity before taking any action that would give rise to the situations that would give rise to charges, as set out in this document.

## Cost chargeable to the employers

### Costs associated with new employers joining the Fund

Costs will be notified at the start of the process but may increase with the length or complexity of the query or report, and also due to delays in providing data, incomplete data, incorrect data or recalculations arising from amendments.

<b>Employer Type</b>	<b>Standard Actuarial Costs (Contribution rate, bond value report and sub-fund set-up report as relevant)</b>	<b>Standard Legal Fees (drafting and producing admission agreement and other legal queries)</b>
Scheduled and Resolution Body	New scheme employer	Not applicable
Admission Body	Letting authority	Letting Authority

### Costs associated with changes to continuing employers

Employer Type	Bond Value re-assessment (Actuarial Costs)	Bulk Transfers in and out of Havering Pension Fund (Actuarial Costs)	Bulk Transfers between two employers in Havering Pension Fund (Actuarial Costs)	Merger and Demergers within existing employers (Actuarial and Legal Costs)
Scheduled Body and Resolution Body	Not Applicable	The letting authority for transfers out of Havering Pension Fund. The new scheme employer for transfers in.	Please refer to Havering Pension Fund	Please refer to Havering Pension Fund
Admission Body	Letting authority (subject to the Administering Authority Policy regarding bond revaluation)	Please refer to Havering Pension Fund	Please refer to Havering Pension Fund	Please refer to Havering Pension Fund

### Costs associated with ceasing employers leaving the Fund

The Pension Fund will carry out a full cessation valuation for Scheme Employers leaving the Scheme to calculate the current surplus or deficit in relation to the Scheme Employer's employees. Costs associated with cessation will be recharged to the departing Scheme Employer as set out below.

Indicative reports to aid decision making by the Scheme Employer may also be provided and will be recharged to the Scheme Employer.

Contact the Pensions Project and Contracts Manager to request an estimate of costs. Costs may increase if there are delays in providing data, for incomplete data or incorrect data. Recalculations and amendments will also result in higher costs.

Employer Type	Cessation valuation (actuarial costs)
Scheduled Body and Resolution Body	The scheduled body or resolution body
Admission Body	Contractor but may be subject to the admission agreement, bond, guarantor or indemnity

## **Additional tangible costs**

### **Bespoke Costs**

Bespoke work directly related to a Scheme Employer will be recharged to the Scheme Employer on a case by case basis. Where such work is commissioned by a Scheme Employer a quotation will be provided in advance of any agreement to carry out the work. Bespoke work may be carried out if staffing resources are available to carry out the work required.

### **Excessive costs in relation to new, ceasing or changing employers**

Where administrative time by the Fund relates to one of these situations exceeds what we deem "reasonable", these costs will be recharged to the relevant employer in addition to the standard costs.

### **Accounting Reports**

The FRS102/IAS19 reports are accounting reporting standards, the purpose of which is for employers to disclose/account for the total value of pension payments that have accumulated at an accounting year end. The disclosure is an employer's duty to publish and is not a cost for the Pension Fund to bear. Any officer time spent completing the data returns, to the fund's actuary, on behalf of the employers will be reimbursed. The rate is set at the start of the FRS102/IAS19 cycle and will be communicated to employers at that time and is in addition to the fees charged by the actuary.

### **Poor performance recharges**

Where we consider that we have incurred additional costs (including officer's time) as a result of an employer's poor level of performance, regulation 70 of the Local Government Pension Scheme Regulations 2013 allows us to recover these costs. Details of the regulation is set out below or you can view the full Local Government Pension Regulations [here](#).

#### Circumstances where costs might be recovered as the result of poor performance

The circumstances where costs may be recovered from employers:

- 1) Persistent and on-going failure to provide relevant information (as determined by the Employer Information provided to all new scheme employers) to the Havering Pension Fund, scheme member or other interested parties in accordance within specified performance targets, either as a result of timeliness of delivery or quality of information.
- 2) Persistent and on-going failure to pass relevant information to a scheme member or potential members, either due to poor quality or not meeting the agreed timescales outlined in the performance targets.

- 3) Persistent and on-going failure to deduct and pay over correct employee and employer contributions or any other payments due to the Havering Pension Fund within the stated timescales.
- 4) Instances where the performance of the Scheme employer results in fines or additional costs being levied against the Havering Pension Fund by the Pension Regulator, Pensions Ombudsman or other regulatory body.
- 5) For a persistent failure to resolve an isolated case(s) satisfactorily.

#### Calculation of costs incurred

For a persistent failure to resolve isolated case(s) satisfactorily the Fund will recharge the cost of officer time from the point in time at which we write a formal letter to the scheme employer until the case is resolved. The rate applicable will be dependent upon the level of officer(s) involved in resolving the case and the time spent on resolution.

For persistent and on-going failure to meet targets, following intervention to assist the employer concerned, the Fund will recharge the additional costs due to the employer's poor performance at the relevant officer(s) cost and the time spent on resolution from the point of time that a formal letter has been issued to the scheme employer until performance improves.

Where the performance of the scheme employer results in fines or additional costs being levied against the Fund, the Fund will recharge the full costs it has incurred to the relevant employer(s).

#### Interest payments on retirement benefits

Where the Fund pays out the lump sum payment or first pension payment late because we have not received the forms in sufficient time for them to be processed (i.e. one month and one year late respectively), we are required to pay an interest payment to the member (Reg. 81). This interest cost will be passed to employers.

Interest payable under Reg. 81 must be calculated at one per cent above base rate on a day to day basis from the due date to the date of payment and compounded with three-monthly rests.

#### Late payment of contributions

On 1 April 2015 The Pensions Regulator (TPR) published their code of practice no. 14 concerning '**Governance and Administration of Public Service Pension Schemes**'. Of course, with the exception of the Local Government Pension Scheme Regulations 2013 that came into force from 1 April 2014, the statutory legislation governing all public service pension schemes will come into force from 1 April 2015 in accordance with the Public Service Pensions Act 2013.



With regard to the collection and payment over of pension contributions it should be noted that TPR has a number of statutory objectives including:

- To protect the benefits of pension scheme members;
- To promote and improve understanding of the good administration of work-based pensions
- To maximise compliance with the duties and safeguards of the Pensions Act 2008.

The Pension Regulator's Code of Practice No.14 "Governance and Administration of Public Service Pension Schemes" sets out the legal requirements for maintaining contributions, with regard to what constitutes late payment, the following extract applies:

147. Employer contributions must be paid to the scheme in accordance with any requirements in the scheme regulations. Where employer contributions are not paid on or before the date they are due under the scheme and the scheme manager has reasonable cause to believe that the failure is likely to be of material significance to the regulator in the exercise of any of its functions, the scheme manager must give a written report of the matter to the regulator as soon as reasonably practicable

148. Where employee contributions are deducted from a member's pay, the amount deducted must be paid to the managers of the scheme at the latest by the 19th day of the month following the deduction, or by the 22nd day if paid electronically (the 'prescribed period') or earlier if required by scheme regulations. References to 'days' means all days. References to 'working days' do not include Saturdays, Sundays or Bank Holidays.

149. Where employee contributions are not paid within the prescribed period, if the scheme manager has reasonable cause to believe that the failure is likely to be of material significance to the regulator in the exercise of any of its functions, they must give notice of the failure to the regulator and the member within a reasonable period after the end of the prescribed period. Where there is a failure to pay employee contributions on an earlier date in accordance with scheme regulations, schemes should also consider their statutory duty under section 70 of the Pensions Act 2004 to assess and if necessary report breaches of the law. For more information about reporting breaches of the law, see this section of the code.

Noting these regulatory requirements, together with the Local Government Pension Scheme Regulations 2013 (Reg. 71), the London Borough of Havering will issue Scheme Employers with a written notice of unsatisfactory performance and notify them that they may be charged interest where that performance does not improve.

An employer who continues to fail to meet the statutory requirement to pay employer contributions, employee contributions and employee additional contributions over to the Pension Fund by the 19<sup>th</sup> day of the following month (22<sup>nd</sup> of the following month if paid electronically) will also be at risk of being reported to the Pensions Regulator who has the power to issue fines.

The Fund will recharge the additional costs due to the employer's poor performance at the relevant officer(s) cost and the time spent on resolution from the point of time that a formal letter has been issued to the scheme employer until the payment of contributions has been received.

Interest payable under Reg. 71 must be calculated at one per cent above base rate on a day to day basis from the due date to the date of payment and compounded with three-monthly rests.

## **Pension Strain Costs**

### Redundancy

A pension strain cost may be incurred and will be payable by the Scheme Employer where a member retires early, but having reached at least age 55, on the grounds of redundancy or business efficiency; or where the employer exercises their discretions in such a way as to give rise to pension strain costs. Employer discretions include:

- Award of additional pension,
- Waiver of actuarial reductions,
- Allowing unreduced benefits for early retirement over the age of 55 where the member satisfies the rule of 85.

The above issues should all be covered in the Employer Discretion Policy, as required by the 2013 regulations.

Where an employer makes certain decisions which result in additional benefits being paid out to a member, this results in a strain on the Fund. The cost of providing these additional benefits are calculated and recharged in full to the employer who made the decision.

### Ill-Health Retirements

A pension strain cost may also arise due to ill-health retirements, regardless of the age of the member. Each Scheme Employer is allocated an ill-health allowance at the triennial valuation, or at the time they become a new scheme employer. The costs of ill-health retirements for each Scheme Employer are monitored and employers who exceed their allowance will be invoiced for the excess cost. Information on ill-health insurance is provided to all Scheme Employers but it is currently their decision whether they take out the insurance. Employers should be aware that the pension strain cost of a tier 1 ill-health retirement can be significant, in some cases in excess of £100,000. Scheme Employers should carefully consider the level of their ill-health allowance, the cost of the insurance (which does reduce their employer rate), and the risk of a tier 1 ill-health occurring.

Pension strain costs are based on actuarial factors relating to a number of aspects such as the members age, sex and scheme membership.

## **Applicability**

The policy applies to all current and any future employers within the London Borough of Havering Pension Fund, which includes the Council as an employer, all the Academies within the Borough and Admission bodies carrying out work under contract where there has been a transfer of staff who have retained continued access to the Local Government Pension Scheme.

The consequences of non-compliance include being reported to The Pension Regulator and the possibility of fines.

Scheme Employers will be consulted as part of the policy development process, and a Scheme Employer representative may sit as a Member on the Havering Pension Fund Committee. Revisions to the policy in the future will also be consulted upon with the Scheme Employers. There are currently 49 Scheme Employers of the Havering Pension Fund.

## **Ownership and authorisation**

The Policy Lead is the Pension Projects and Contracts Manager, who will be responsible for review of the policy as and when there are regulatory, audit or legislative changes. The Pension Committee will approve the Policy and any future revisions, subject to delegation to the Section 151 Chief Operating Officer.

## **Further information**

If you have any questions or comments regarding this charging policy, please contact Caroline Berry our Pensions Projects and Contracts Manager.

Telephone: 01708 432185

Email: [caroline.berry@oneSource.co.uk](mailto:caroline.berry@oneSource.co.uk)

If your enquiry is regarding the FRS102/IAS19 - Full details and estimated costs can be obtained by contacting Debbie Ford:

Telephone: 01708 432569

Email: [Debbie.Ford@oneSource.co.uk](mailto:Debbie.Ford@oneSource.co.uk)