



Havering
L O N D O N B O R O U G H

HAVERING PENSION FUND

CHARGING POLICY

Effective from 1 October 2021

Contents

	Page
1. Introduction	3
Policy Review, Ownership and Authorisation	3
Pensions Administration	3
2. Legislative Framework	4
3. Key Objectives	4
4. Costs Chargeable to Scheme Employers	5
Standard Costs	5
Employer Specific Costs	5
Costs associated with outsourcing a service or function	6
Costs associated with a new employer joining the Fund	6
Costs associated with changes to a continuing employer in the Fund	7
Costs associated with an employer leaving the Fund	7
Accounting Reports	8
Strain Costs	8
Unsatisfactory Performance Recharges	9

1. Introduction

This is the Charging Policy of the London Borough of Havering Pension Fund in relation to the administration Local Government Pension Scheme (LGPS).

The policy provides guidance on the type of work that will incur charges associated with being a scheme employer within in the LGPS and provides clarity on who is responsible for meeting those costs.

The general administration costs of the Pension Fund are borne across all employers through the employer contribution rate. Administration costs for bespoke work directly related to and requested by a Scheme Employer are recharged to the employer.

The introduction of the Pensions Administration Strategy gives clear guidance regarding the use of the Charging Policy where unsatisfactory employer performance is impacting the effectiveness and quality of the pensions administration service.

The policy applies to all past, current and future Employers participating in the Fund.

Policy Review, Ownership and Authorisation

The Charging Policy is effective from 01 October 2021.

The administering authority will review this policy as required to reflect changes in Regulations, Governance or working practices with a full review every three years. Employers will be consulted in the event of any changes.

The policy lead is the Pension Projects and Contracts Manager. The document has been developed in consultation with scheme employers and the Local Pensions Board and with approval from the Pensions Committee.

If you have any questions or comments regarding the charging policy, please contact:
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Pensions Administration

From 1 November 2017, the London Borough of Havering delegated the pension administration service to Lancashire County Council who have engaged the Local Pensions Partnership Administration (LPPA) to undertake their pension portfolio. The Local Pensions Partnership was formed in 2016 through a collaboration between Lancashire County Council and the London Pensions Fund Authority and provides pension services to the Local Government Pension Scheme, Police and Firefighter Schemes.

2. Legislative Framework

Each employer in the Havering Pension Fund is responsible for the pension costs incurred in relation to its current and former employees.

Some of those costs are covered by the Local Government Pension Scheme Regulations (LGPS) 2013 (Regulations 67-71).

The administering authority may also charge for additional administration work and legal and actuarial fees incurred in support of scheme employers.

This policy covers costs outside of the standard employer contribution rate costs, for services provided to support Scheme Employers in delivering their legislative responsibilities.

Havering Pension Fund reserve the right to make charges to employers in circumstances not covered by this policy.

In accordance with the Public Sector Pensions Act 2015, the LGPS is regulated by the Pensions Regulator. The administering authority and its employers are required to comply with regulatory guidance or Code of Practice issued by the Pensions Regulator.

3. Key Objectives

The key objectives of the Charging Policy are:

- To provide guidance on the scenarios for charging or re-charging costs to scheme employers to avoid cross subsidy by all other employers in the Fund.
- To provide guidance on the type of work that will incur charges
- To provide guidance on the costs, how they are calculated and how they can be paid

4. Costs chargeable to Scheme Employers

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 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

Employer Specific Costs

Some costs are incurred as a result of the decision and actions of a particular employer. It is fair that these should be paid by the employer who generates them, rather than being shared across all scheme employers.

A quotation of the fees and charges will be provided on request, and scheme employers must contact the Pensions Projects and Contracts Manager at the earliest opportunity before taking any action that would give rise to the situations that incur a charge.

Examples of the costs included in this category:

- Becoming a new LGPS scheme employer
- The outsourcing of a service or function
- Ceasing to be a scheme employer
- Accounting reports
- Unsatisfactory performance charges
- Interest on late payment of contributions
- Pension Fund Strain Costs

Actuarial costs are commercially sensitive so cannot be published but are available on request or will be provided as part of any quote supplied.

Legal fees are charged on an hourly basis and processed annually as at 31 March. Due to the annual charging mechanism some employers will receive a charge later than expected. The costs are specific to the lawyer assigned to the case so cannot be notified in advance.

Costs will be recharged by invoice and any non-payment of invoices will be pursued through the Council's debt management procedure.

Costs associated with outsourcing a service or function

A scheme employer must notify the administering authority of any services that are being outsourced and will involve a Tupe transfer of staff to another organisation, immediately at the point the decision is made to outsource.

Pensions information must be included in Invitation to Tender documents. Costs incurred are chargeable to the letting authority

Typical charges that will be incurred when a letting authority looks to procure a new supplier are detailed below:

Actuarial Fees

- Pensions Information Memorandum: when a service is outsourced, the actuary will provide a Pensions Information Memorandum that must be supplied to potential bidders as part of the Invitation to Tender document pack. This gives all required information about the costs associate with being a scheme employer for the staff in scope of a potential Tupe transfer.
- Actuarial queries: any queries that require an actuarial opinion

Legal Fees

- Legal queries: any queries that require a legal opinion

Costs associated with a new employer joining the Fund

Costs are incurred for new employers joining the scheme following an outsourcing of a service or function or a change in status of a current scheme employer, e.g. a school converting to an academy.

Costs will be notified at the start of the process but may increase with the complexity of the query or report, or due to delays in providing data, incomplete/inaccurate data, and any required recalculations rising from amendments

Typical charges that will be incurred when a new scheme employer joins the scheme are detailed below:

Actuarial Fees

- Employer Contribution Rate Calculation: when a new scheme employer is admitted into the Fund, the actuary will calculate the employer contribution rate that is payable.
- Bond Value Report: the pension fund will not admit a new scheme employer without a form of surety and often this is provided by way of a bond or guarantor.
- Initial Asset Allocation (Opening Funding Position): all employers require an opening funding position to be calculated to ensure the actuary are able to track each employer's individual position throughout their time in the Scheme.
- Actuarial queries: any queries that require an actuarial opinion

Legal Fees

- Drafting and execution of an Admission/Bond Agreement: new employers require an admission and bond (where applicable) agreement. This is completed by the OneSource legal team
- Legal queries: any queries that require a legal opinion

Costs associated with changes to a continuing employer in the Fund

Periodic assessment is required following a material change to a scheme employer, for example a bulk transfer in or out, merger or demerger or an extension to an outsourcing contract.

Typical charges that will be incurred when there is a material change to a scheme employer are detailed below:

Actuarial Fees

- Bond Value Re-assessment: the administering authority will require the bond to be re-assessed at the end of the initial bond guarantee period or as determined by the actuary or admission agreement
- Bulk transfer calculations: fees incurred for calculating the appropriate bulk transfer into or out of the Fund and associated actuarial advice
- Merger/Demerger: all costs associated with a merger/demerger of employers within the Fund
- Actuarial queries: any queries that require actuarial opinion

Legal Fees

- Legal contracts: drafting and execution of any legal contracts in respect of a Merger/Demerger within the Fund
- Legal queries: any queries that require a legal opinion

Costs associated with employers leaving the Fund

When an employer leaves the fund, the administering authority will need to calculate the final funding position and establish whether the employer is in surplus or deficit.

Costs will be notified at the start of the process but may increase with the complexity of the query or report, or due to delays in providing data, incomplete/inaccurate data, and any required recalculations rising from amendments

Typical charges that will be incurred when there is a material change to a scheme employer are detailed below:

Actuarial Fees

- Full cessation valuation report: to establish whether an employer is in surplus or deficit at the point of leaving the Fund
- Indicative cessation reports: to aid decision making by the scheme employer
- Direction Applications: reports or guidance in respect of employers wishing to move to another LGPS Fund
- Actuarial queries: any queries that require actuarial opinion

Legal Fees

- Drafting and execution of any legal contracts in respect of a Merger/Demerger within the Fund
- Legal queries: any queries that require a legal opinion

Accounting Reports

The FRS102/IAS19 reports are accounting reporting standards that enable employers to account for the total value of pension payments accumulated at an accounting year end. The disclosure is an employer's duty and is not a cost for the Fund to bear. Any officer time spent completing data returns to the actuary on behalf of the employer will be charged. 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.

Pension Strain Costs

Where an employer makes a decision that results in unreduced or additional benefits being paid to a member, a strain cost is recharged in full to the employer who made the decision. Pension strain costs are based on actuarial factors relating to a number of aspects such as the members age, sex and scheme membership.

An estimate of the strain cost can be obtained from the Local Pensions Partnership Administration via the estimate request form on the Your Fund Portal. Please visit the website www.lppapensions.co.uk for information.

Early retirement

A strain cost may arise where a member retires early, having attained the age of 55, on the grounds of redundancy or business efficiency; or where the employer exercises their discretions to allow unreduced or additional pension benefits to be paid. Employer discretions include:

- Awarding additional pension,
- Waiving actuarial reductions,
- Agreeing to flexible retirement where a member has relevant protections

The above scenarios should all be covered in the Employer Discretion Policy, as required by the 2013 regulations. Care should be taken regarding any Special Severance Payment or Exit Cap Regulations that may become legislation.

Ill-Health Retirements

A pension strain cost may also arise due following an ill-health retirement, 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 cost 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 not mandatory that an employer takes this up. 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.

Unsatisfactory Performance Recharges

Administrative poor performance by an employer

Where the administering authority considers that it has incurred additional costs as a result of unsatisfactory employer performance, regulation 70 of the Local Government Pension Scheme Regulations allows recovery of these costs. The performance standards and escalation procedure are set out in the Havering Pension Fund Pensions Administration Strategy (PAS).

The administering authority will recharge the additional costs due to the employer's unsatisfactory performance. The employer will be provided with an hourly rate and an estimated completion time, with the final invoice being sent upon completion of the work.

Interest payments on retirement benefits

The administering authority has a regulatory obligation (Regulation 81 of the LGPS Regs 2013) to pay interest if a members lump sum retirement grant is paid more than 30 days after their retirement date and on their first pension payment if that is delayed by more than 12 months. If the interest payment is due because an employer has not met the performance standard as set out in the PAS for submitting the leaver form or responding to queries, this interest cost will be passed to the employer.

Late payment of contributions

Employer contributions are due to the Fund by the 22nd of the month following the deduction. Regulation 71 of the LGPS Regulations 2013, allow an administering authority to charge interest on late payment of contributions.

The payment of contributions is also covered by the Pensions Regulator's current Code of Practice 14 that governs public service pension schemes in accordance with the Public Service Pension Act 2013.

The contributions and monthly report must be received by 22nd of the month following the deduction. The performance standard is covered in the PAS.

Interest payable under Regulations 71 and 81 must be calculated at one per cent above The Bank of England base rate on a day to day basis from the due date to the date of payment and compounded with three-monthly rests.

Fines by a third party relating to an employer's performance

If the administering authority is fined by a third party mainly for the action or inaction of one or more employers, the administering authority at its absolute discretion will invoice the employers concerned accordingly.

Bespoke Costs

Bespoke work directly related to a scheme employer will be recharged 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 where staffing resources are available