

The London Borough of Newham Pension Fund

Charging Policy

23 March 2022

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1. Introduction

In recent years there has been a significant increase in the amount of fees the 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 and the subsequent effects of this.

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 that charges should be met by the relevant scheme employer directly rather than the escalating cost met by all scheme employers on behalf of the few employers who are consuming the actuarial and legal services.

Indicative fees are available on request and Scheme employers are encouraged to contact the Pension Fund for a quote before commissioning any work.

The ability to collect contributions towards the administration of the Pension Fund and other costs are set out within the Local Government Pension Scheme Regulations.

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

2. Costs chargeable to the Fund

Standard Costs

Most costs of 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 are:

- Governance costs
- Benefits administration
- Payroll processing for pensioners
- Actuarial fees associated with completing the triennial valuation
- Investment management costs (where not netted off the fund values)
- Audit Fees
- Most other administrative work and officers' time

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

In the case of an admission body, the Fund's Admission Body Policy includes that the Fund may require any actuarial, legal, non-standard administration and other justifiable cost to be paid by the admission body. In the case of a transferee admission body it may be agreed that these costs are paid for by the Scheme employer who let the contract or shared with that employer and the transferee admission body.

An indication of the fees and charges will be provided on request and Scheme Employers are encouraged to contact the Pensions team at the earliest opportunity before taking any action that would give rise to the situations that would give rise to charges, as set out below.

3. Costs Chargeable to the Employer

Note that costs will increase with the length or complexity of the query or report, and also due to delays in providing data, incomplete or incorrect data or recalculations arising from amendments. Contact the Pensions Manager to request an estimate of costs.

Costs associated with new employers joining the Fund

Employer Type	Standard actuarial costs (contribution rate, bond value report and sub-fund set-up report as relevant)	Standard legal fees (drafting and producing admission agreement and other legal queries)
Scheduled Bodies and Resolution Bodies	New employer	Not applicable in normal circumstances
Admission Bodies	Letting authority	Letting authority

In addition, LBN Pension Fund charge for all work undertaken in connection with the application for all employer types. Information is provided in our Employer Admission Manual.

Costs associated with changes to continuing employers

Employer Type	Bond value re-assessments (actuarial costs)	Bulk transfers in and out of Newham Pension Fund (Actuarial Costs)	Bulk transfers between two employers in Newham Pension Fund (actuarial costs)	Merger and Demergers within existing employers (actuarial and legal costs)	Contribution reviews outside triennial valuations (if initiated by employer)
Scheduled Bodies	Not Applicable	Transferor for transfers out of Newham Pension Fund, Transferee for transfers in	Transferor	Very unlikely in normal circumstances, please refer to Newham Pension Fund	Scheme employer
Admission Bodies	Scheme employer	Very unlikely in normal circumstances, please refer to Newham Pension Fund	Please refer to Newham Pension Fund	Very unlikely in normal circumstances, please refer to Newham Pension Fund	Scheme employer

Costs associated with ceasing employers leaving the Fund or entering into a deferred debt arrangement

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.

In certain circumstances, a Scheme Employer may enter into a deferred debt agreement (DDA) with the Fund in order to defer payment of their exit debt or they may enter into a debt spreading agreement (DSA) in order to pay their exit debt over an agreed period of time. The setting up of such arrangements will also incur costs.

Costs associated with cessation, DDAs or DSAs will be recharged to the relevant 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, as set out below.

Employer Type	Cessation valuation, DDA or DSA (actuarial costs)
Scheduled Body	The scheduled body or resolution body
Admission Bodies	Normally the admission body but this may be subject to the Admission Agreement, bond, guarantor or indemnity

4. 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 related to one of these situations exceeds what we deem "reasonable", these costs will also 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 officers' 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 at <http://lgpsregs.org/schemeregs/index.php/timeline-regulations-2014>.

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 Newham Pension Fund, scheme members 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 Newham 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 Newham 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 an 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 member 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).

Late payment of contributions

In April 2015 The Pensions Regulator (TPR) issued code of practice no. 14 concerning '*Governance and Administration of Public Service Pension Schemes*'. With regard to the collection and payment over of 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 pension schemes; and
- 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 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 is to be paid to the managers of the scheme within 19 days beginning on the day after the deduction is made, or within 22 days if paid electronically (the prescribed period').
- 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.

Interest payable under LGPS Regulation 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.

5. Pension Strain Costs

Redundancy

A pension strain cost may be incurred and will be payable by the Scheme Employer where a member retires early 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;

- Awarding additional pension,
- Waived 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 decisions resulting in additional benefits being paid out to a member this results in a strain on the Fund. The cost of providing these additional benefits is 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. The contribution rate calculated as part of the most recent triennial valuation, or at the time an employer commences participation in the Fund, will include an allowance for ill-health retirements. This allowance is specific to the membership profile for each employer but will typically be a relatively small percentage of payroll each year of around 1% - 2%, as the incidence of these events is relatively infrequent. However, employers should be aware that the additional cost of an ill-health retirement, particularly a tier 1 ill-health retirement, can be significant relative to the contribution and an employer's payroll, for example, well in excess of £100,000.

The administering authority therefore implements an ill-health self-insurance pool within the Fund whereby a portion of all non-Council employers' contributions is allocated to a segregated ill-health section of the Fund. As part of the self-insurance policy, assets equal to the funding strain are transferred from the segregated ill-health assets section of the Fund to the employer's section of the Fund to cover the funding strain incurred as a result of any tier 1 or tier 2 ill-health retirements. This means that the employers covered by the policy will not be invoiced for the cost of ill-health retirements when they occur.

For the London Borough of Newham Council, the impact of such ill-health events is expected to be less significant and, given their size, they are effectively able to self-insure against these risks. They will therefore not participate within the ill-health self-insurance policy and any additional strain cost will be incorporated into their contributions at the next triennial valuation.

Please note that 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.

6. Applicability

The policy applies to all current and any future employers within the London Borough of Newham 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.

The Scheme Employers will be consulted as part of the policy development process. In addition a Scheme Employer representative also sits as a Member on the Newham Pension Fund Committee, and the Fund's Local Pension Board has employer representatives. Revisions to the policy in the future will also be consulted upon with the Scheme Employers.

7. Ownership and authorisation

The Policy Lead is the Pensions Manager who will be responsible for review of the policy as and when there are regulatory, audits or legislative changes. The Investment and Accounts Committee will approve the Policy and any future revisions, subject to delegation to the Group Director of Resources.

8. Related documents

- The Local Government Pension Scheme Regulations 2013.
- Code of practice no. 14 concerning 'Governance and Administration of Public Service Pension Schemes'.

9. Communication

The Policy will be forwarded to all Scheme Employers and the Investment and Accounts Committee for consultation and comment before finalisation.

The Policy will be published and available for access on the Newham Pension Fund website, in the Employer area, at <http://www.yourpension.org.uk/handr/Home.aspx>.

10. Implementation

The policy will be implemented by the Newham Pensions Team, and clearly sets out the protocols to follow.

The Charging Policy does not have a mandatory training requirement or any other training needs.

11. Monitoring and review

The policy will be reviewed as and when legislative, audit and regulatory changes are published. The policy will be formally reviewed and reported to the Investment and Accounts Committee, as necessary, if revisions to the policy are required to be approved.

12. Further information

If you have any further questions or comments about this charging policy, please contact Jacqueline Andress – Pension Projects and Contracts Manager
Telephone: 0203 373 8408
Email: Jacqueline.Andress@onesource.co.uk

If you enquiry is regarding the FRS17/IAS19 - Full details and estimated costs can be obtained by contacting Rakesh Rajan, Pension Fund Manager:

13. Glossary

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

Admission Body (including Transferee Admission Body and Community 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 causing the change, for example, by outsourcing staff.