



London Borough of Hackney Pension Fund 2017 Employer Forum – Employer data, responsibilities and more

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Consulting | Retirement

Presentation to Employers of the London Borough of Hackney Pension Fund

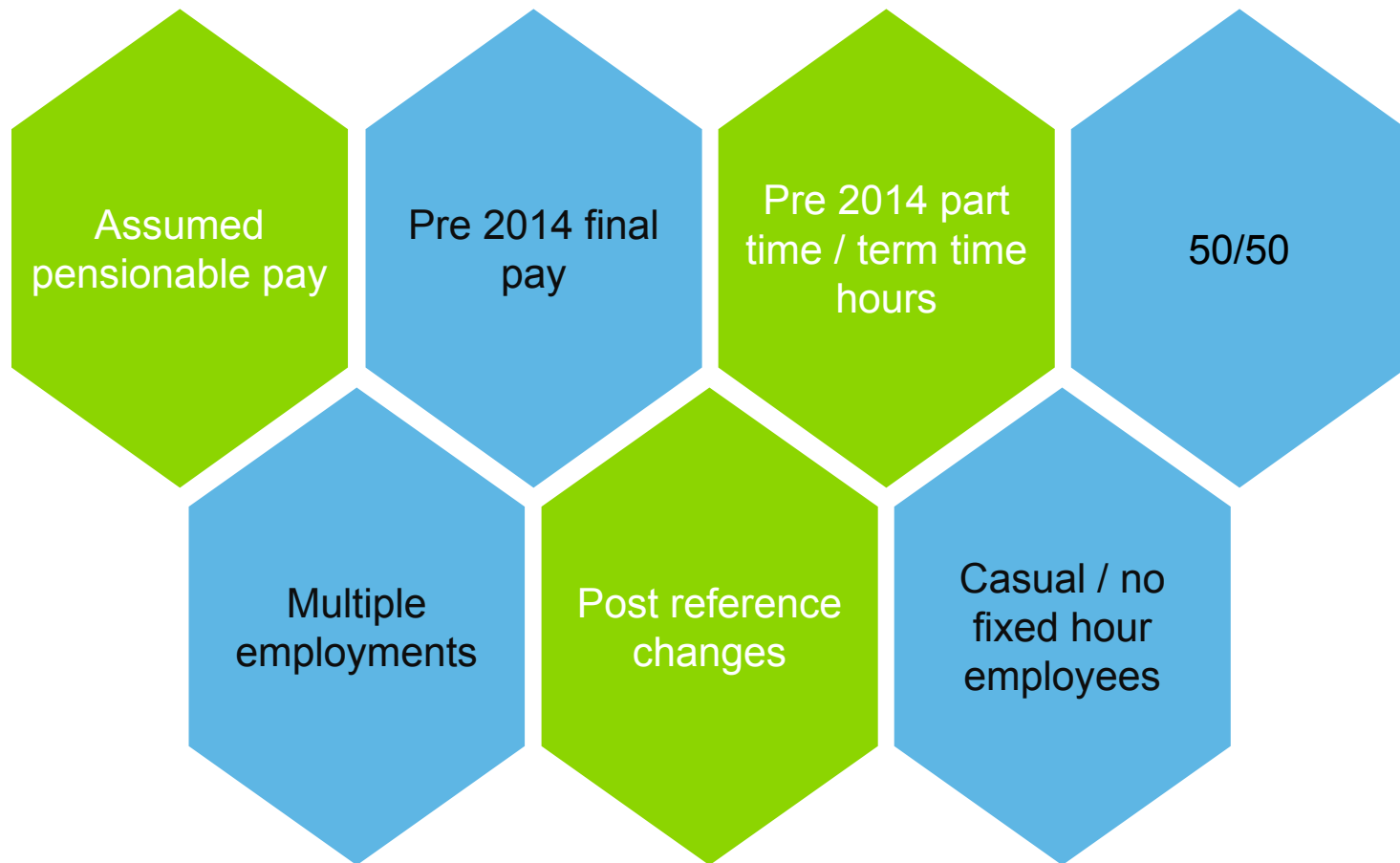
Agenda Slide

Section 1	The importance of good quality data and employer responsibilities
Section 2	Employer Data review
Section 3	Reminder of recent changes in pension taxation limits
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Section 6	Further reforms of exit payments

Summary of Responsibilities

- Member benefits based on service (pre-2014) and pay
 - Provide all relevant information to Fund (Equiniti) as soon as possible after event
 - Send any documentation as soon as possible (e.g. leaver form)
 - Provide year end information in respect of all members
 - Deduct and pay over correct contributions
 - Make decisions as appropriate
 - Publish and keep under review employer discretions policy statement
 - Nominate adjudicator to deal with appeals
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- Note – if you use an outsourced payroll provider responsibility remains with YOU
 - Remember, responsibility doesn't end when member leaves employment

Top things that can go wrong....



Employer Decisions

- Administering authority determines amount of any benefit and any question relating to previous pension rights
 - Employer decides (almost!) everything else
 - Employer determines entitlement to a benefit
 - Ill health retirement
 - Flexible retirement
 - Redundancy/interests of efficiency retirement
 - Employer decides reason for leaving scheme
 - Employer decides scheme eligibility
 - Employer decides contribution rate and when this is reviewed
 - Employer decides what pay elements are pensionable
 - Employer determines final pay figure
 - Employer decides whether to award any additional pension
 - Employer decides whether to extend 30-day option period to buy back lost pension following unpaid leave
 - Employer decides whether to allow a transfer of benefits more than 12m after joining
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- Full list of decisions/discretions on www.lgpsregs.org

Discretions Policy

- All employers **must** have written policy statement on the following discretions
 - Whether and in what circumstances you will award additional pension
 - Whether you will enter into a Shared Cost APC arrangement
 - Whether you will agree to flexible retirement
 - If so, whether you will allow member to take partial benefits
 - And whether you will waive any actuarial reduction
 - Whether you will 'switch on' the 85 year rule for those retiring voluntarily between 55-60
 - Whether you will waive any actuarial reduction on compassionate grounds for members voluntarily retiring/deferred members drawing benefits before NRD

- Not required, but recommended to have written policy on the following
 - How you will assign employee contribution rates and how frequently this will be assessed
 - Whether you will allow members to transfer-in previous pension benefits more than 12m after joining

Employer Decisions

- Ensure all decisions follow regulations and/or discretions policy
- Notify members in writing
 - Decision made
 - Reason for decision
 - Right of appeal
- Notify fund/Equiniti of all decisions made
 - Monthly/year end reports
 - Submission of retirement forms and associated paperwork



Disclosure and record keeping regulations

- Oversight by the Pensions Regulator
- Disclosure Regulations (updated 2013):
 - Penalties – up to £50k

Circumstance	Deadline
A change to the scheme	3 months after the change
New start information	2 months after joining
Retirement benefits (after NPA)	1 month after leaving
Other leaver benefits	2 months after leaving
Request for estimate	2 months after request



- Record Keeping Regulations
 - Lists of specific data requirements
 - Lists of key transactions


Pay is critical in the new CARE scheme

- Basic example

Scheme Year		Actual Pay	Cost of Living Adjustment
1	1 April 2014 to 31 March 2015	£24,500	3%
2	1 April 2015 to 31 March 2016	£25,333	3.1%
...In main section of the scheme			



Basic example - continued



Scheme Year	Opening Balance	Pension Build up in year	Total Account 31 March	Cost of living adjustment	Updated Total Account
1	£0.00	$\text{£}24,500/49 = \text{£}500$	£500	3% = £15	£515
2	£515	$\text{£}25,333/49 = \text{£}517$	£1032	3.1% = £32	£1,064

Year end returns will determine entitlement to benefits

Overpayment example

- Member has significant non contractual overtime (NCO)
- Employer should provide pensionable pay both including NCO (for post 2014) and excluding NCO (for pre 2014)
- Employer only provided figure including NCO

Date of Birth	1 April 1956
Joined the Scheme	1 April 1981
Salary incl only contractual overtime	£25,000
Non-Contractual overtime	£5,000
Total Salary figure provided	£30,000

Impact on member and funding

MEMBER	Pre 08 pension	Pre 14 pension	Post 14 CARE pension	Total pension	Pre 08 Lump sum
Based on data provided	$\text{£}30,000 * 27/80$ = £10,125	$\text{£}30,000 * 6/60$ = £3,000	$\text{£}30,000 * 1/49$ = £612	£13,737	£30,375
'Correct'	$\text{£}25,000 * 27/80$ = £8,437.5	$\text{£}25,000 * 6/60$ = £2,500	$\text{£}30,000 * 1/49$ = £612	£11,550	£25,313

FUNDING	Approximate Liabilities (use factor of 20)
Based on data provided	$(13,737 * 20) + 30,375$ = £305,120
'Correct'	$(11,550 * 20) + 25,313$ = £256,307



Underpayment example

- Member off sick for long periods over a year
- Employer should provide Assumed Pensionable Pay (APP) to compensate
- Actual pensionable pay figure provided instead

Date of Birth	1 April 1969
Joined the Scheme	1 April 1989
Actual Salary earned	£15,000
APP	£30,000
Salary figure provided	£15,000

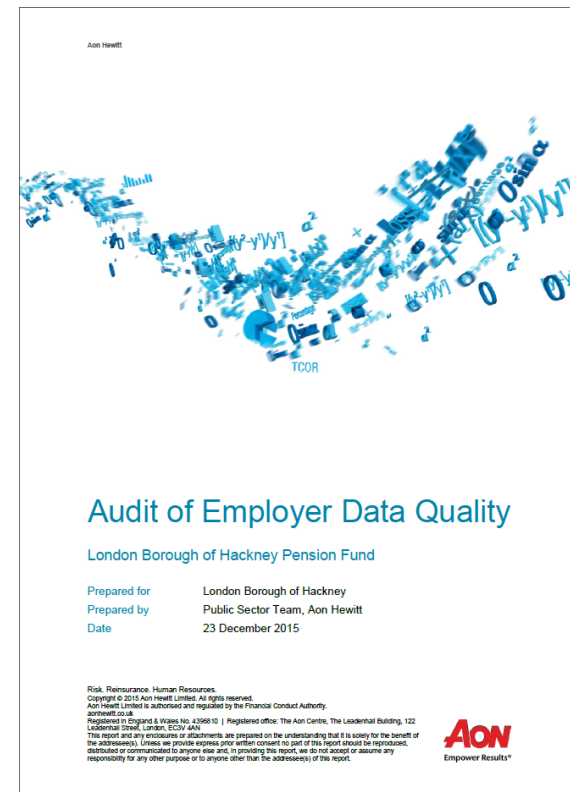
Impact on member and funding

MEMBER	Pre 08 pension	Pre 14 pension	Post 14 CARE pension	Total pension	Pre 08 Lump sum
Based on data provided	$\text{£}15,000 * 19/80$ = £3,562.5	$\text{£}15,000 * 6/60$ = £1,500	$\text{£}15,000 * 1/49$ = £306	£5,369	£10,688
'Correct'	$\text{£}30,000 * 19/80$ = £7,125	$\text{£}30,000 * 6/60$ = £3,000	$\text{£}30,000 * 1/49$ = £612	£10,737	£21,375

FUNDING	Approximate Liabilities (use factor of 20)
Based on data provided	$(5,369 * 20) + 10,688$ = £118,060
'Correct'	$(10,737 * 20) + 21,375$ = £236,120

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Employer data review - process

What we are doing

- Scoring each employer on relative completeness and accuracy of data submitted to the Fund (HK221 forms)
- Ranking by relative quality
- Comparison with results of previous review

Accuracy

Do employer contributions paid tie up with the salary data on the monthly HK221 form?

Are the contributions paid the same as those advised on the monthly HK221 forms?

Are the figures provided on the annual return accurate?

Did the employer attend the AGM and employer training / forums?

Engagement

Timeliness

Were contributions paid by or on the 19th of the following month?

Have there been any charges for lateness?

Was the annual return submitted on time?

Were monthly return forms submitted?

Compliance

Does the employer have all necessary discretionary policies and procedures in place, as required by the Regulations?

Was the HK221 form completed correctly for a recent month?

Employer data review - results

Initial Outcomes – general thoughts

- Large number of employers providing good, timely data despite challenges faced
- Some employers:
 - not providing data in a timely manner
 - providing data that is incomplete or inconsistent or
 - not providing data at all.
- Some difficulties with Assumed Pensionable Pay?
- Difficulties reconciling contributions with salary and contribution rates
- Amounts paid to bank not always matching HK221 forms
- Some difficulties with correctly filling out HK221 forms, particularly supporting information

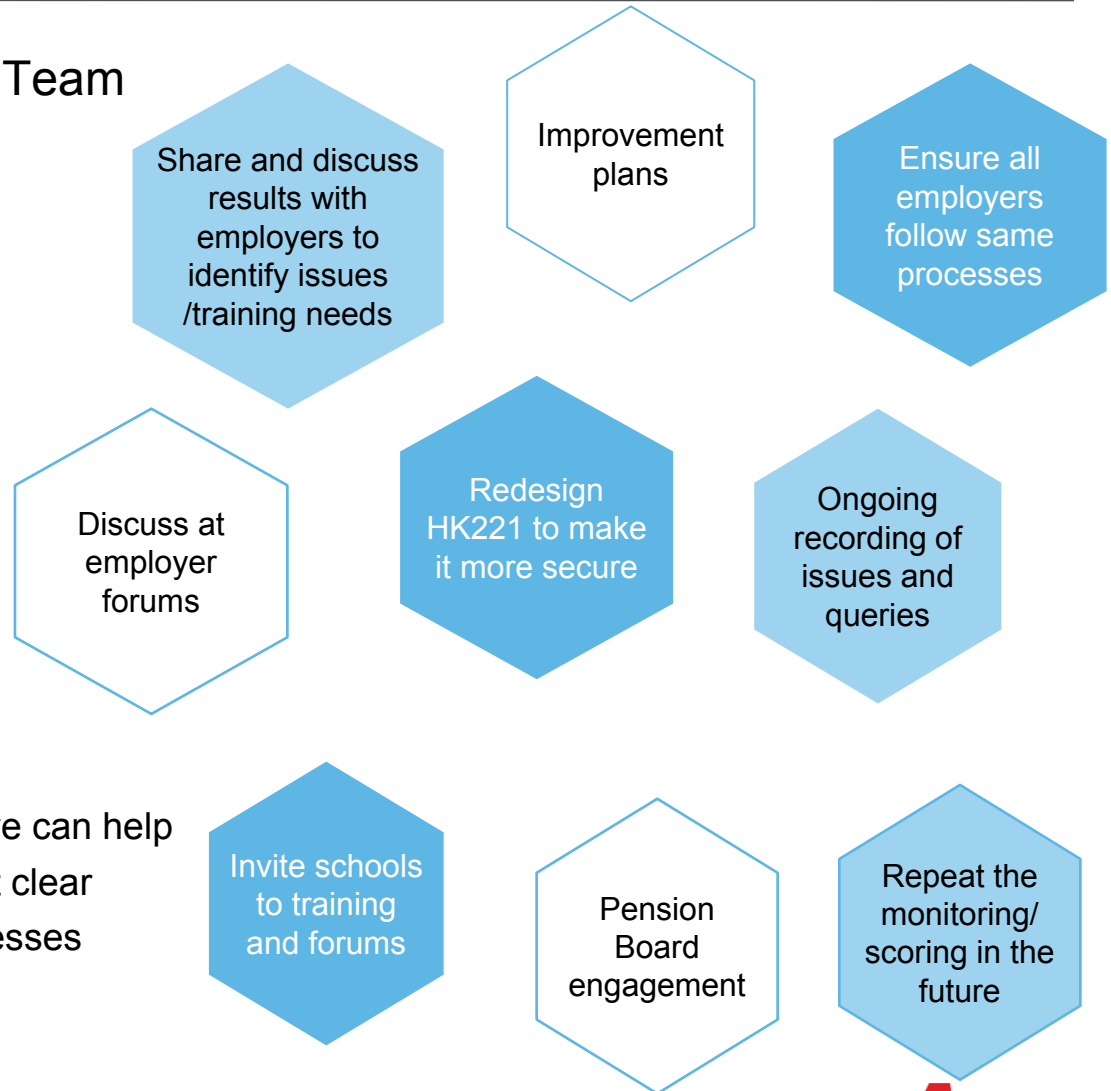
Previous results



Employer data review – next steps

Next steps for the Hackney Pensions Team

- Recommended a number of actions be taken to improve data quality
- Scoring system usage for future monitoring and improvement exercises
- We will share the results of the current review with individual employers in the next few months
- Focus on most significant risks initially (relative size and scoring rank)



Opportunity for You

- Let us know where you are finding challenges - we can help
- Let us know where a particular requirement is not clear
- Feedback on HK221 forms and other forms/processes
- Attend training opportunities

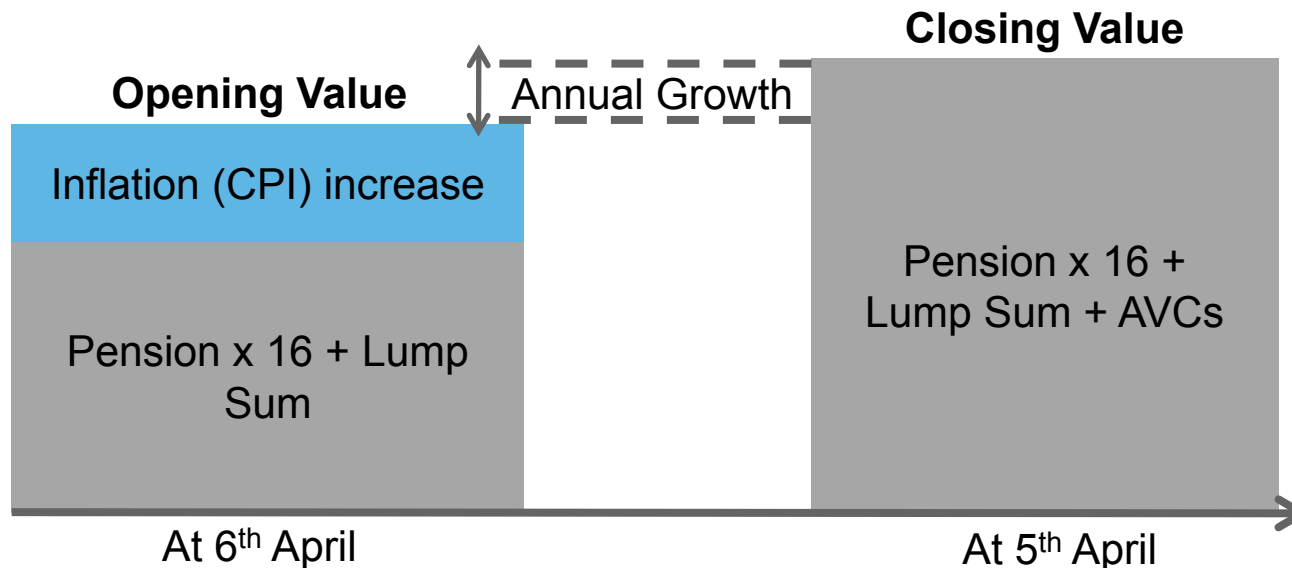
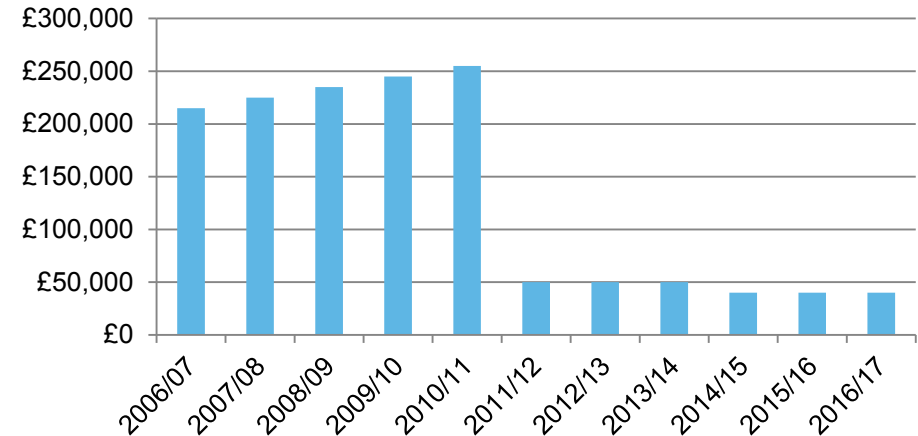
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Pension taxation limits – Annual Allowance

- A threshold – not limit
- Pensions savings can increase in **any one year**
- Can offset against unused allowances from previous three years
- Any excess is charged at normal rate of tax

Annual Allowance Levels



Recent changes to the annual allowance

- From 6 April 2016
- AA is "tapered" down for anyone who:
 - has "adjusted income" of over £150,000 per year, and
 - "threshold income" of over £110,000 per year

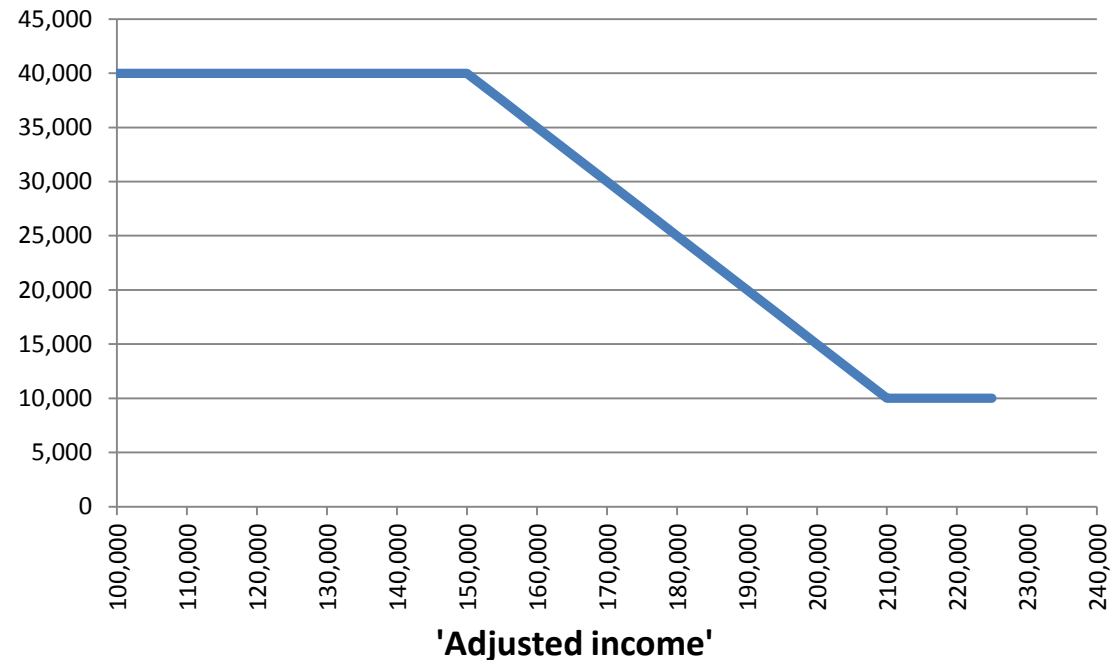
Adjusted income

Taxable income
- employee pension
contributions
+ growth in pension
savings

Threshold income

Taxable income
- employee pension
contributions

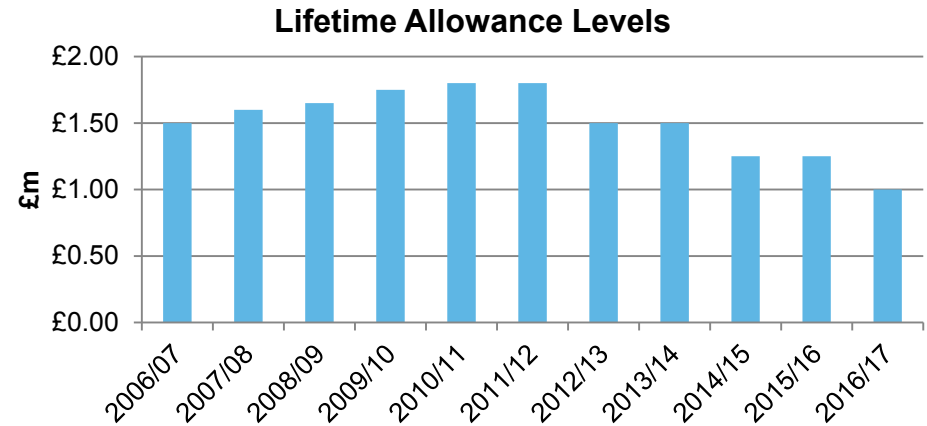
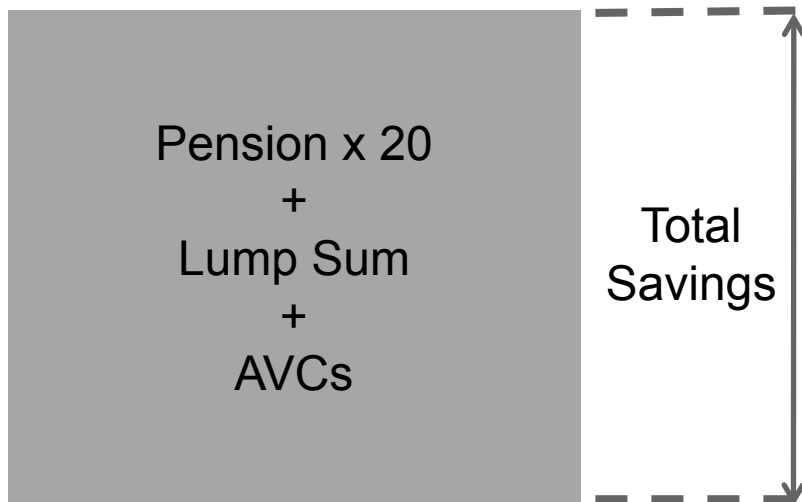
Proposed Annual Allowance



- Annual Allowance will reduce by £1 for every £2 of 'adjusted income' above £150,000
- The minimum annual allowance = £10,000

Pension taxation limits – Lifetime Allowance

- A threshold – not limit
- Total pensions savings **at retirement**
- Any excess is subject to a tax charge
- Tax charge depends on format of excess:
 - lump sum 55%
 - pension 25%



- Consumer price increases from April 2018

Individual Protection 2016

If benefits at 5 April 2016 are valued at £1M or above
Max £1.25M

Fixed Protection 2016

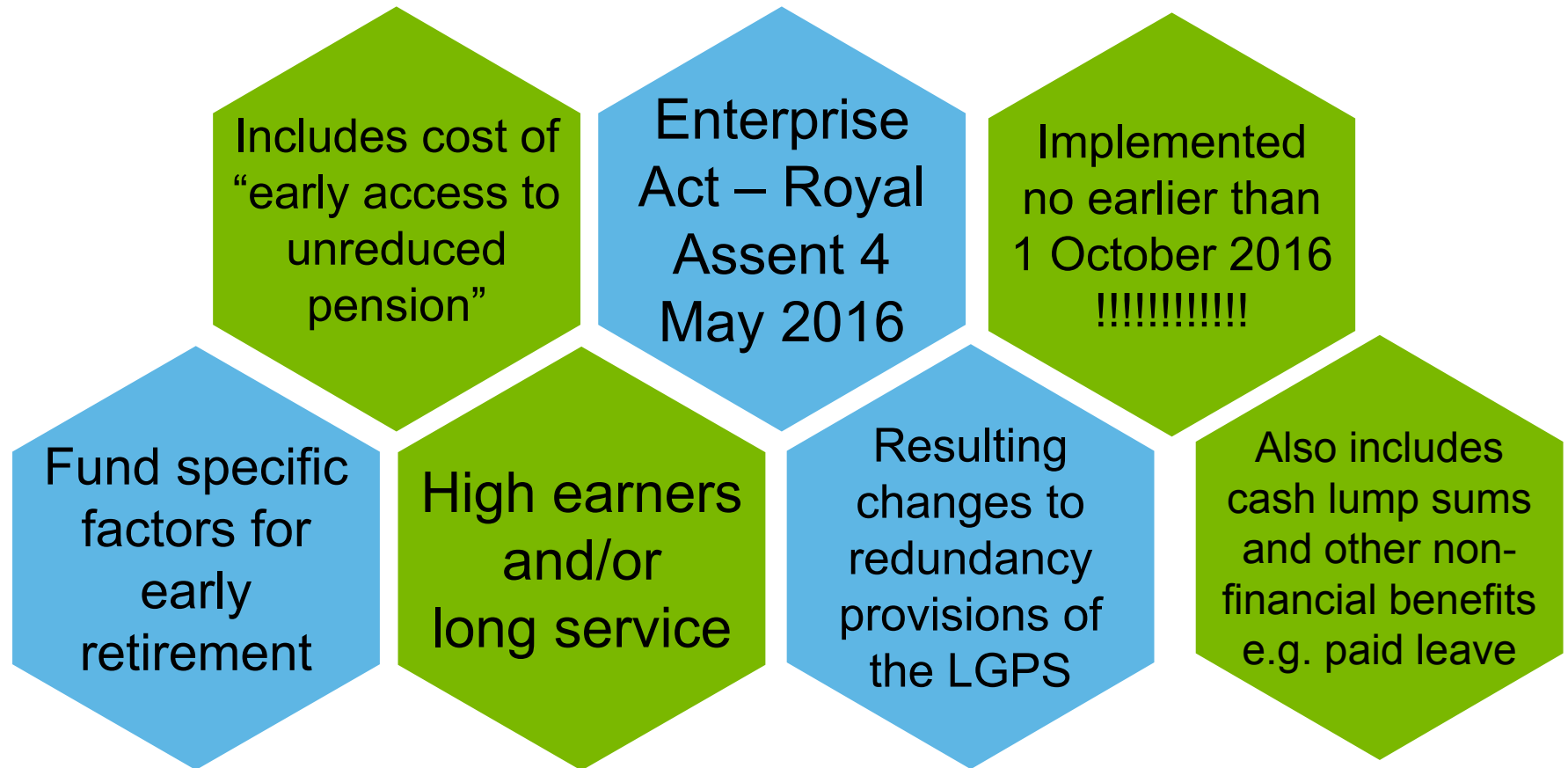
Fixes Lifetime Allowance at £1.25M
No further accrual

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The Exit Cap

Proposals to cap the total cost of exit payments to £95,000 (before tax)



Capping the total cost of exit payments to £95,000

Illustrative Example –Redundancy Male member retiring 1 August 2017 including additional redundancy payments		
Age at retirement*	55	57
Years service	25	25
Final Pay**	£50,000	£50,000
Redundancy Payment***	£25,900	£26,850
Approximate Early Retirement Cost	£75,000	£45,000
Total Exit Cost	£100,900	£71,850

* Critical retirement age 60 for Pre 08

** Pay under previous 3 years under 2014 and 2008 definition also £50,000

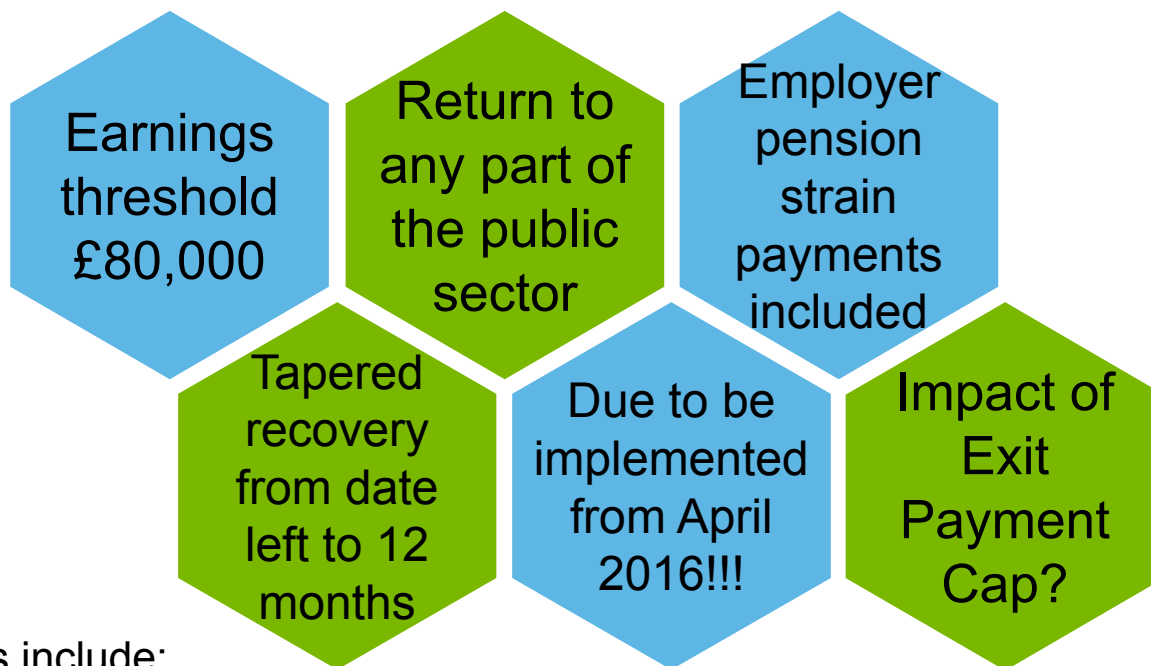
*** Statutory redundancy calculation but using actual weekly pay

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Repayment of Exit payments

Recovery of exit payments for High Earners who return to public sector within a year



Proposals include:

- Employers must notify employees of requirements on termination
- Employee must notify old and new employer
- New employer not to employ the individual until repayment arrangements are finalised
- Potential to waive (Secretary of State or Full Council) but HMT directions

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Reforms to public sector exit payments

- Guidelines for common framework across public sector
 - Cap of 3 weeks' pay per year of service
 - Cap of 15 months' salary
 - Cap on maximum salary used to calculate payment (e.g. £80k as per NHS)
 - Tapering lump sum compensation for those closer to SPA
 - Limiting/removing employer-funded early access to pensions
 - Increase minimum age for receiving employer-funded early pension benefits
-
- Individual departments to have submitted proposals by 26th December 2016 (?)
 - Changes in place by 26th June 2017
 - Some limited transitional arrangements will be considered
-
- Issue – 15 months at £80k is £100k. How will this fit with £95k cap??

Taxation of public sector exit payments

- Aim - to avoid manipulation of payments to avoid tax/NI
- First £30k of termination payment remains tax-free
- Any payment relating solely to the termination remains fully exempt from employee NI
- Employer NI payable on payments over £30k
- All PILONs subject to tax and NI
- Any payments that would have been treated as earnings had employee worked notice period will be subject to tax and NI
- Due to be effective from 6th April 2018 (Finance Bill 2017)



Any questions?

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