

## Thinking of outsourcing your payroll? Have you thought about pensions?



Pensions may not be the highest priority on your list when you choose to outsource your payroll. If you don't consider pensions in your choice of provider, you could make the wrong decision which could have serious consequences for both you and your staff. If you choose to outsource your payroll, you will still be responsible for fulfilling your legal duties as a Local Government Pension Scheme (LGPS) employer. This guide explains why it's so important to consider pensions in your decision, the possible consequences of non-compliance with LGPS regulations and considerations that may help you with your choice.

Please note: This guide is intended for information purposes only. It cannot include all aspects of relevant legislation, nor does it seek to interpret or supplant any statutory regulations. Always refer to the regulations directly when making a decision involving pensions. In the event of a dispute, the regulations at the time will prevail.

**“Making the wrong decision could have serious consequences for both you and your staff”**

### Your auto-enrolment responsibilities

As a UK employer, you are required to comply with [auto-enrolment regulations](#). The responsibilities under these regulations include:

- Monitoring the ages and earnings of staff to ensure they are enrolled in a workplace pension scheme if and when they become eligible.
- Notifying your staff about enrolment
- Managing requests to leave or join the scheme and ensuring correct action is taken
- Ceasing the deduction of pension contributions when someone leaves the scheme and refund contributions where applicable.
- Re-enrolling staff who have left the scheme at the correct re-enrolment date
- Keep accurate records evidencing how you have met your legal duties (name, address, employment details).

All of these responsibilities have associated timescales and deadlines. You can find out more information on the [government website](#).

### Responsibilities under the LGPS regulations

The LGPS is a statutory scheme. This means that your obligations as a Scheme employer are set out in law. These include:

- Determining the Scheme member's contribution rate, reviewing this at least once a year and upon any material change to earnings.
- Collect and pay over employer and member pension contributions to us and pay correct AVC contributions to the correct provider.
- Notify us of starters, including re-enrollments, leavers including refunds paid and death in service cases, retirements including ill-health, as well any changes to contribution rates, relevant absences, and service breaks.

- Supply us with accurate pay information, contribution amounts, and service history when requested, as well as provide monthly and yearly notifications.
- Notify us of any changes to your organisation that will impact on your participation in the Fund including the transfer of staff under TUPE, mergers with other organisations, and changes of payroll provider.
- Ensure you carry out your LGPS responsibilities in ill-health cases, including arranging for ill-health assessments and deciding what tier a member qualifies for.
- Make all employer decisions as required under the regulations, including dealing with complaints under the Internal Dispute Resolution Procedure (IDRP) when required.
- Set up and maintain a list of LGPS discretions for your organisation available to your employees and us.
- Keeping up to date with any changes to Scheme regulations and ensuring implementation of new measures.
- If your organisation is subject to the £95k cap on exit payments, ensuring you include pension costs in the calculation of the cap and informing us if an employee does or does not breach the cap.

In addition, there is other overriding legislation that you need to be aware of. These are noted in the [Pensions Administration Strategy](#).

### What happens if I don't comply?

There are timescales associated with all your responsibilities set out in the regulations. You can find a summary of these in the [Roles and Responsibilities \(R&R\) document](#). We will issue you charges for:

- Failing to notify us about something
- Submitting information to us late
- Providing incomplete or inaccurate information.

These are set out in the [Pensions Administration Strategy](#) in accordance with [regulation 59](#).

We monitor instances of non-compliance on a monthly basis and issue a performance summary at the end of the year. While we will always try to work with you to support you in meeting these duties, we will not hesitate to issue additional administration charges to employers who

continually fail to meet their obligations or will not seek help when training needs are identified. If you outsource your payroll, and the payroll provider underperforms, it is you, as the employer, who will be issued with these charges.

## “You can outsource your payroll, but not your responsibilities.”

In addition to the charges issued by us, a failure to meet your legal duties could leave you open to investigation by [The Pensions Regulator \(TPR\)](#). TPR have the power to issue fines and enforce notices to recover backdated payments.

### Choosing the wrong payroll provider will:

#### 1. Waste your time

You may choose to outsource your payroll because you think it will save time. Choosing the wrong payroll provider will waste a lot of your time trying to resolve issues of non-compliance, resolving queries and providing information.

#### 2. Be very expensive

You may want to outsource because it will save you money. Choosing the wrong payroll provider could end up costing more than you save when you receive charges relating to non-compliance.

#### 3. Cause unnecessary stress for members

While time and money seem obvious considerations, you also need to consider your duty to members. Choosing an ineffective payroll provider could mean delays in us receiving important information. These delays have a direct impact on member's lives, causing unnecessary worry and stress.

#### 4. Generate more complaints

Delays in assessing member's benefits inevitably lead to complaints from members. You may have to deal with these complaints, and they could result in an IDRP, which is time consuming and stressful for all involved.

Remember, you can outsource your payroll, but not your responsibilities. Instead, think about value for money. If you pay less for your payroll, you may get less in return.

## **How to choose the right payroll provider**

Now that you understand why it's so important not to choose the wrong payroll provider, let's look at some questions to ask to help you find the right payroll provider.

### **Do they have staff with a good understanding of pensions specifically in relation to the LGPS?**

They may have experience processing pensions, but the LGPS is a complex scheme and ever changing. We use the information provided by employers to calculate pensions. Providing us with incorrect information could result in overpayments or underpayments of pension, and charges for you. Find out what experience they have in dealing with LGPS pension duties? Are they aware of the regulations? Have they worked with us directly? If so, contact us to find out our experience of working with them. Also ask what checking procedures do they have in place to ensure accuracy?

### **What services are they offering you?**

It's very important that you get specific details on what duties they will fulfil as required by the regulations and what they won't. We have many examples of situations where an employer has expected a payroll provider to perform all functions related to LGPS pensions, to find there are things they will not do. One payroll provider we have worked with, for example, will not provide member election forms which we need under the regulations. The employer was unaware and had to write out to staff that had already left, to obtain completed forms. Ensure you go through all the responsibilities in the R&R and find out what they are actually offering.

## **“Payroll providers that perform better are the ones who are willing to work with us”**

### **Are they willing to keep up to date with the scheme, implement changes and attend training sessions when required?**

Payroll providers that perform better are the ones who are willing to work with us to improve services and keep up to date with the latest information. The LGPS is frequently changing and consequently, so are our procedures. We send out regular mailings and an employer's

newsletter [In-Form](#) to keep you up to date with these things. Will your payroll provider be willing to add themselves to the list? We offer webinar training sessions to all employers and their payroll teams. Will your payroll provider attend? Will they contact us for support if a training need is identified? If not, it may be a cause for concern.

### **Can they comply with the timescales? What resources and procedures do they have in place for meeting these?**

Late information has as many negative consequences as inaccurate information. Put yourself in the member's shoes. Providing late quote information may prevent the member make important decisions about their pension. Providing late retirement information may delay essential payments to a retired worker. Not telling us about a death in service can leave a grieving family without the payments they are entitled to receive. Use the R&R document and the Pensions Administration Strategy to go through all these deadlines with them. Find out the ratio of their staff to your staff. Do they complete forms digitally? What controls are in place to monitor timescales?



### **Are they keeping records and storing data in line with regulatory requirements?**

The R&R states that you should hold data for at least 13 years, even in cases where the member has died, left the scheme or retired. All too often, we receive queries from members that mean we need to investigate historic cases, only to be told by the payroll provider that the data we need is not available. Ask any prospective payroll provider what data they keep and how long for and check these fastidiously against the requirements in the regulations.

### **What will happen if you stop using services?**

If either the payroll provider or you decide to no longer continue in your partnership, we will still require the data they were responsible for. We will come to you for this data if they will no longer supply it to us. As the employer, you remain responsible for the data. Will they supply you with the information they hold or pass this to a new payroll provider? Will this be supplied in a way that is easy for you to extract data from? Or are they able to continue supplying us with information for that period after your contract ends? What sort of cost would be involved if you choose to stop using their services? Some payroll providers may ask for a premium exit charge if you choose to leave.

### **“You need to be able to monitor their performance effectively”**

#### **How will you monitor their performance?**

Once you have chosen a payroll provider, and agreed what responsibilities they will take over, your involvement doesn't end there. You need to be able to monitor their performance effectively to ensure they are doing what they have agreed to and take action if they are not. Find out what processes can be put in place to ensure this happens. Each employer has a designated Employer Liaison Officer (ELO). You can contact your ELO and ask for an update on performance. If you receive warning emails from us, ensure that you take action immediately and agree a plan with your payroll provider if this happens.

#### **Local authority run schools**

If you are a school maintained by a local education authority (LEA), you may wish to check what support your LEA is able to offer you with your obligations. Perhaps some of the employer function is fulfilled by the HR department? If so, you need to be clear on who is responsible for what. If you don't know, you may cause further delays to processes. You may also wish to consider the payroll service run by your LEA.

#### **Telling us about a change of payroll provider**

If you are changing your payroll provider, please let us know as soon as possible. You should also let us know who we should approach for pensions information and any responsibilities

that the payroll provider will not be dealing with. You should also provide us with contact details and if the employee payroll numbers change, we will need a list matching the new numbers to the old numbers.

### **Final thoughts**

Outsourcing your payroll is a big decision for both you and your staff. Pensions should be a priority in your decision as a failure to fulfil your employer responsibilities could have serious implications. The LGPS is a complex scheme and the employer function requires training and sufficient resources to meet your duties. Ensure you understand what services you are paying for and safeguard data by agreeing a handover plan if the contract ceases. Consider quality of service in your decision, and ensure you put procedures in place to monitor performance. If you need any support, get in touch



#### **Contact details and further information**

For all our guides, forms and booklets, visit the 'employer's' section of our website: [lgps.buckinghamshire.gov.uk](http://lgps.buckinghamshire.gov.uk)

For more information on The Pensions Regulator and employer responsibilities visit: <https://www.thepensionsregulator.gov.uk/>

Visit 'employer resources' on the LGPS website for more training, guides and webinars: [www.lgpsregs.org/employer-resources/index.php](http://www.lgpsregs.org/employer-resources/index.php)

If you have any questions, or require training contact your ELO or email us at: [employers@buckinghamshire.gov.uk](mailto:employers@buckinghamshire.gov.uk)

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