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IBC On-boarding Project

Tri Borough Payroll LGPS Pension Analysis (from CR4 results)

Draft Version

1. Introduction

This paper sets out the explanation of the key differences in LGPS Pensions calculations between SAP and Agresso.

- The first is the effect of the different method of calculating Pensionable Pay and the impact on bandings.
- The second is the impact of Auto-Enrolment.

2. Pensionable Pay Calculations and Impact on Bandings

LGPS EEs % Assessment - Issue Background

There are number of employees across the Tri Borough who opted into the Local Government Pension Scheme (LGPS). Difference in approach of calculating Pension contribution resulted in number of differences when comparing payroll results between SAP and Agresso. This is a known difference in the basis of the calculation that was discussed and agreed during fit/gap workshops.

Assessment of LGPS Pensions

- The calculation of assessed pensionable pay for LGPS is at the discretion of the employer.
- Monthly Pension Contribution is pensionable pay for the month times % contribution (Tiered rate based upon Assessed Annual Pensionable Pay)
- Tiered rates are as follows:

| Pe... | Description | Band | Start Date | End Date | Range Start | Range End | EEs % |
|-------|-------------------|------|------------|------------|-------------|------------|---------|
| LG6 | LGPS Variable ... | 1 | 01.04.2018 | 31.03.2019 | 0.00 | 14,100.99 | 5.5000 |
| LG6 | LGPS Variable ... | 2 | 01.04.2018 | 31.03.2019 | 14,101.00 | 22,000.99 | 5.8000 |
| LG6 | LGPS Variable ... | 3 | 01.04.2018 | 31.03.2019 | 22,001.00 | 35,700.99 | 6.5000 |
| LG6 | LGPS Variable ... | 4 | 01.04.2018 | 31.03.2019 | 35,701.00 | 45,200.99 | 6.8000 |
| LG6 | LGPS Variable ... | 5 | 01.04.2018 | 31.03.2019 | 45,201.00 | 63,100.99 | 8.5000 |
| LG6 | LGPS Variable ... | 6 | 01.04.2018 | 31.03.2019 | 63,101.00 | 89,400.99 | 9.9000 |
| LG6 | LGPS Variable ... | 7 | 01.04.2018 | 31.03.2019 | 89,401.00 | 105,200.99 | 10.5000 |
| LG6 | LGPS Variable ... | 8 | 01.04.2018 | 31.03.2019 | 105,201.00 | 157,800.99 | 11.4000 |
| LG6 | LGPS Variable ... | 9 | 01.04.2018 | 31.03.2019 | 157,801.00 | 999,999.99 | 12.5000 |

- The Assessed Annual Pensionable pay is calculated differently between SAP and Agresso.

- SAP standard is to use current month's static pay (ignoring this month's ad-hoc payments such as overtime) plus the previous 12 months ad-hoc payments.
- Agresso uses current months' pay (static data and ad-hoc payments in the month) x 12.
- Practically the SAP solution results in the employee paying the correct band based on their earnings over a year, whereas in Agresso they would only pay a higher band for any month they receive the ad-hoc payment. (SAP effectively averages the effect of ad-hoc payments over a year).

Some Examples are provided below.

Example 1: This example is business as usual case where Employee earns static salary payments and adhoc payments (except where indicated 0 when they did not receive any adhoc payments)

| SAP Calculation | | | | | | Agresso Calculation | | | | | |
|-----------------|-------------------|-----------------------|--|-------------|------------------------------|---------------------|-------------------|-----------------------|--|-------------|------------------------------|
| | <u>Static Pay</u> | <u>Adhoc payments</u> | <u>Assessed Annual Pensionable Pay</u> | <u>EE %</u> | <u>Pension Contributions</u> | | <u>Static Pay</u> | <u>Adhoc payments</u> | <u>Assessed Annual Pensionable Pay</u> | <u>EE %</u> | <u>Pension Contributions</u> |
| January'18 | 3500 | 550 | 42000 | 6.80% | 275.40 | January'18 | 3500 | 550 | 48600 | 8.50% | 344.25 |
| February'18 | 3500 | 560 | 42550 | 6.80% | 276.08 | February'18 | 3500 | 560 | 48720 | 8.50% | 345.10 |
| March'18 | 3500 | 0 | 43110 | 6.80% | 238.00 | March'18 | 3500 | 0 | 42000 | 6.80% | 238.00 |
| April'18 | 3500 | 150 | 43110 | 6.80% | 248.20 | April'18 | 3500 | 150 | 43800 | 6.80% | 248.20 |
| May'18 | 3500 | 200 | 43260 | 6.80% | 251.60 | May'18 | 3500 | 200 | 44400 | 6.80% | 251.60 |
| June'18 | 3500 | 0 | 43460 | 6.80% | 238.00 | June'18 | 3500 | 0 | 42000 | 6.80% | 238.00 |
| July'18 | 3500 | 450 | 43460 | 6.80% | 268.60 | July'18 | 3500 | 450 | 47400 | 8.50% | 335.75 |
| August'18 | 3500 | 300 | 43910 | 6.80% | 258.40 | August'18 | 3500 | 300 | 45600 | 8.50% | 323.00 |
| September'18 | 3500 | 0 | 44210 | 6.80% | 238.00 | September'18 | 3500 | 0 | 42000 | 6.80% | 238.00 |
| October'18 | 3500 | 450 | 44210 | 6.80% | 268.60 | October'18 | 3500 | 450 | 47400 | 8.50% | 335.75 |
| November'18 | 3500 | 500 | 44660 | 6.80% | 272.00 | November'18 | 3500 | 500 | 48000 | 8.50% | 340.00 |
| December'18 | 3500 | 560 | 45160 | 6.80% | 276.08 | December'18 | 3500 | 560 | 48720 | 8.50% | 345.10 |
| January'19 | 3500 | 250 | 45720 | 8.50% | 318.75 | January'19 | 3500 | 250 | 45000 | 6.80% | 255.00 |

Example 2: Another example of business as usual case where Employee earns static salary payments and adhoc payments (but only twice in a year)

| SAP Calculation | | | | | | Agresso Calculation | | | | | |
|-----------------|-------------------|-----------------------|--|-------------|------------------------------|---------------------|-------------------|-----------------------|--|-------------|------------------------------|
| | <i>Static Pay</i> | <i>Adhoc payments</i> | <i>Assessed Annual Pensionable Pay</i> | <i>EE %</i> | <i>Pension Contributions</i> | | <i>Static Pay</i> | <i>Adhoc payments</i> | <i>Assessed Annual Pensionable Pay</i> | <i>EE %</i> | <i>Pension Contributions</i> |
| January'18 | 3500 | 2000 | 42000 | 6.80% | 374.00 | January'18 | 3500 | 2000 | 66000 | 8.50% | 467.50 |
| February'18 | 3500 | 0 | 44000 | 6.80% | 238.00 | February'18 | 3500 | 0 | 42000 | 6.80% | 238.00 |
| March'18 | 3500 | 0 | 44000 | 6.80% | 238.00 | March'18 | 3500 | 0 | 42000 | 6.80% | 238.00 |
| April'18 | 3500 | 0 | 44000 | 6.80% | 238.00 | April'18 | 3500 | 0 | 42000 | 6.80% | 238.00 |
| May'18 | 3500 | 0 | 44000 | 6.80% | 238.00 | May'18 | 3500 | 0 | 42000 | 6.80% | 238.00 |
| June'18 | 3500 | 0 | 44000 | 6.80% | 238.00 | June'18 | 3500 | 0 | 42000 | 6.80% | 238.00 |
| July'18 | 3500 | 2000 | 44000 | 6.80% | 374.00 | July'18 | 3500 | 2000 | 66000 | 8.50% | 467.50 |
| August'18 | 3500 | 0 | 46000 | 8.50% | 297.50 | August'18 | 3500 | 0 | 42000 | 6.80% | 238.00 |
| September'18 | 3500 | 0 | 46000 | 8.50% | 297.50 | September'18 | 3500 | 0 | 42000 | 6.80% | 238.00 |
| October'18 | 3500 | 0 | 46000 | 8.50% | 297.50 | October'18 | 3500 | 0 | 42000 | 6.80% | 238.00 |
| November'18 | 3500 | 0 | 46000 | 8.50% | 297.50 | November'18 | 3500 | 0 | 42000 | 6.80% | 238.00 |
| December'18 | 3500 | 0 | 46000 | 8.50% | 297.50 | December'18 | 3500 | 0 | 42000 | 6.80% | 238.00 |
| January'19 | 3500 | 0 | 46000 | 8.50% | 297.50 | January'19 | 3500 | 0 | 42000 | 6.80% | 238.00 |

Comparison runs /Go live examples are explained below.

Month 1: In this scenario Joe Bloggs earns salary and rotating shift each period. These are static components. Joe also earns Overtime and other payments, but these are ad-hoc payments and vary each period. In this scenario SAP has NO ad-hoc payments history to include in the banding assessment of pension contributions.

See below detailed calculation and differences.

| Employee | Joe Bloggs | Assume 1st go live period | | | |
|---|-----------------------------------|---------------------------|---------------|--|--|
| SAP Calculation | | | | | |
| Basic Pay | Static Component | | 3230.5 | | |
| Rotating Shift | Static Component | | 516.04 | | |
| Overtime x1.5 | Adhoc Component | | 339.12 | | |
| Overtime x2.0 | Adhoc Component | | 301.44 | | |
| Enhancement x0.5 | Adhoc Component | | 503.44 | | |
| <div style="border: 2px solid green; padding: 5px; margin: 10px 0;"> Assessment for LGPS % = (3230.50+516.04)*12 = £44,958.48 </div> | | | | | |
| £44,958.48 | Band 4 from LGPS Assessment table | | 6.80% | | |
| Pensionable Pay | 4890.54 | | | | |
| LGPS EE Contribution | 6.80% | | 332.56 | | |

| Employee | Joe Bloggs | Assume what would have been | | | |
|--|-----------------------------------|-----------------------------|--------------|--|--|
| Agresso Calculation | | | | | |
| Basic Pay | Static Component | | 3230.5 | | |
| Rotating Shift | Static Component | | 516.04 | | |
| Overtime x1.5 | Adhoc Component | | 339.12 | | |
| Overtime x2.0 | Adhoc Component | | 301.44 | | |
| Enhancement x0.5 | Adhoc Component | | 503.44 | | |
| <div style="border: 2px solid red; padding: 5px; margin: 10px 0;"> Assessment for LGPS % = (3230.50+516.04+339.12+301.44+503.44)*12 = £58,686.00 </div> | | | | | |
| £58,686.00 | Band 5 from LGPS Assessment table | | 8.50% | | |
| Pensionable Pay | 4890.54 | | | | |
| LGPS EE Contribution | 8.50% | | 415.7 | | |

Month 2: Assume this is second month after go live and in this scenario Joe Bloggs continues to earn salary and rotating shift just like the previous period. Joe also earned Overtime and other payments but these adhoc payments varied this period to the last period.

See below detailed calculation and differences. SAP has now built 1 month of adhoc payments history and Agresso continues to look at current months' pay.

| Employee | Joe Bloggs | Assume 2nd go live period | | | |
|--|------------------|-----------------------------------|---------------|--|--|
| SAP Calculation | | | | | |
| Basic Pay | Static Component | | 3230.5 | | |
| Rotating Shift | Static Component | | 516.04 | | |
| Overtime x1.5 | Adhoc Component | | 0 | | |
| Overtime x2.0 | Adhoc Component | | 0 | | |
| Enhancement x0.5 | Adhoc Component | | 0 | | |
| <div style="border: 2px solid green; padding: 5px;"> Static Pay = (3230.50+516.04) = £3746.54 Previous 12 Months Adhoc = £1144 Assessment for LGPS % = (3746.54*12)+1144 = £46102.48 </div> | | | | | |
| | £46,102.48 | Band 5 from LGPS Assessment table | 8.50% | | |
| Pensionable Pay | 3746.54 | | | | |
| LGPS EE Contribution | 8.50% | | 318.46 | | |

| Employee | Joe Bloggs | Assume what would have been | | | |
|--|------------------|-----------------------------------|---------------|--|--|
| Agresso Calculation | | | | | |
| Basic Pay | Static Component | | 3230.5 | | |
| Rotating Shift | Static Component | | 516.04 | | |
| Overtime x1.5 | Adhoc Component | | 0 | | |
| Overtime x2.0 | Adhoc Component | | 0 | | |
| Enhancement x0.5 | Adhoc Component | | 0 | | |
| <div style="border: 2px solid red; padding: 5px;"> Assessment for LGPS % = (3230.50+516.04+0+0+0)*12 = £44958.48 </div> | | | | | |
| | £44,958.48 | Band 4 from LGPS Assessment table | 6.80% | | |
| Pensionable Pay | 3746.54 | | | | |
| LGPS EE Contribution | 6.80% | | 254.76 | | |

Questions & Answers

- Does the difference between SAP v Agresso calculations affect **pensionable pay**?
No.

2. Does the difference between SAP v Agresso calculation affect pension contributions?
Yes.
3. Is there a difference in LGPS Assessment table between SAP and Agresso?
No. It is the statutory table used to derive EE Contribution %
4. Are there any wage types that are pensionable in SAP and NOT pensionable in Agresso?
No.
5. What is the difference between Assessed Annual pensionable pay and Annual pensionable pay
Assessed Annual pensionable pay is a notional value to derive the banding %.
Annual pensionable pay is actual pensionable for the year.

Conclusion

Loading 12 month history from Agresso into SAP would result in employees potentially over contributing to the pension fund, as these ad hoc earnings have already been included in "in month" Agresso calculations determining the rate of contribution. These historic earnings would then also be included in the SAP calculation to determine the current contribution rate.

Ignoring the 12 months history therefore results in either no change or a benefit to the employee but at a marginal level. There is also no impact to the annual Career Average Earnings (CARE) calculation for the employee.

The marginal difference is to the detriment to the respective organisations Pension Fund which will be addressed as part of the normal triennial valuation process but the difference should be insignificant in that process.

3. Pension Auto Enrolment

Issue Background

There are few employees across the Tri Borough who opted out of their Auto Enrolment pension scheme. However when pension auto enrolment data is provided opt out dates are NOT provided for the HCC as this data is not available in Agresso.

Statutory rules state an employee to be enrolled into a pension scheme (subject to qualifying criteria) if they are not already in a pension scheme and if they are not opted out. SAP puts them into a pension scheme and takes pension deduction from the employee's pay.

As a result of this, there are differences in net pay which are categorised as known differences due to auto enrolment. This was discussed and agreed in the previous meetings with the London Borough Payroll SMEs.

Example below- In this scenario employee has a known pension difference of £153.

| SAP Calculation | | | | | Agresso Calculation | | | | | | |
|-----------------|-------------------|-----------------------|--|-------------|---|--------------|-------------------|-----------------------|--|-------------|------------------------------|
| | <u>Static Pay</u> | <u>Adhoc payments</u> | <u>Assessed Annual Pensionable Pay</u> | <u>EE %</u> | <u>Pension Contributions</u> <u>AUTO ENROLMENT</u> | | <u>Static Pay</u> | <u>Adhoc payments</u> | <u>Assessed Annual Pensionable Pay</u> | <u>EE %</u> | <u>Pension Contributions</u> |
| December '18 | 2000 | 250 | 24000 | 6.80% | 153.00 | December '18 | 3500 | 250 | 45000 | 0.00% | 0.00 |

CR4 Statistics

| <u>Difference Reason Description</u> | <u>LBHF</u> | <u>RBKC</u> | <u>WCC</u> |
|--------------------------------------|-------------|-------------|------------|
| Total | 158 | 135 | 176 |
| Pension Contribution % | 25 | 44 | 116 |
| Auto enrolled on SAP | 123 | 69 | 41 |
| Pension calculation difference | 10 | 22 | 19 |

*The results are from interim payroll results and these shall be reviewed once the final payroll run is completed.

Appendix:

- Excel sheet with WCC- 176 differences directly related to this issue with comments.
- Excel sheet with RBKC and LBHF examples.
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