

Pension Fund Committee

7 December 2023

Pension Fund – Debt Management and Write-off Policy



Report of Paul Darby, Corporate Director of Resources

Purpose of the Report

- 1 This report provides the Committee with an overview of the Fund's Debt Management and Write-off Policy, and provides a summary of its key features.

Executive Summary

- 2 The Debt Management and Write-off Policy aims to provide assurance that the Fund has effective processes in place to aid the management of debt and provide a framework by which debt recovery processes will operate. This will ensure Pension Fund debt is managed in an economical way, using fair recovery practices, in line with legislative provisions and best practise.
- 3 The Policy defines the various types of Pension Fund debt and sets out circumstances and criteria the Fund will consider for writing off bad debts.

Recommendation(s)

- 4 The Committee are recommended to:
 - (a) Note the report and provide any comments on the approach outlined.
 - (b) Authorise the Corporate Director of Resources to finalise, publish and implement the Policy, taking into account comments of the Pension Fund Committee and Local Pensions Board.
 - (c) Delegate review of the Debt Management and Write-off Policy to the Local Pensions Board.

Debt Management

- 5 Having an effective Debt Management and Write-off Policy is key ensuring the Fund is managing its debtors within regulatory and legislative requirements. A robust framework will ensure that debt is recovered equitably and provides Officers with clear guidance enabling them to identify which type of debt needs to be recovered and the most suitable recovery method required.
- 6 The Debt Recovery policy aims to identify the various types of debt and the differing approaches the Fund may take to each. There are two distinct recovery routes built into the debt recovery process of the Council's finance system.
- 7 If the Fund is chasing a debt caused by an overpayment of pension benefits, the recovery process allows for larger time periods between each reminder invoice. The end of the recovery process is a referral to the Pension Team to decide on the next course of action. No enforcement proceedings will ordinarily be initiated in these cases. This is due to the sensitivity associated with this type of overpayment, as they are nearly always caused by a death of a scheme member.
- 8 Where the Fund is chasing a debt from a company or business, systems are in place to send reminders at much shorter intervals. If the process is exhausted, then a referral will be made to the Pensions Team. The Team will consider whether there are any alternative recovery methods available. If no other recovery routes can be identified, then enforcement proceedings may be initiated, if deemed economically viable.
- 9 Having preventative measures in place to try and prevent debt occurring in the first instance helps provide value for money to all Fund Stakeholders, by keeping employer costs down whilst ensuring pension benefits are paid on time, to the correct person, at the correct rate. The Pensions Team conduct various exercises on both a monthly and annual basis in order to identify deaths, investigate returned payments and keep in touch with overseas pensioners. As well as this, all pension calculations are processed through a task management system, whereby all pension benefit figures are checked thoroughly by a senior member of staff before being authorised.

Write Offs

- 10 The majority of instances of Pension Fund Debt occur following the death of a scheme member. Given these circumstances, the Fund must give special consideration to the distress which debt can cause bereaved families at such a difficult time - which could potentially lead to reputational damage to the Council. As such, where there are no

further benefits due to be paid from the Fund (such as a death grant or dependant's pension) the Fund will not pursue any debt under the value of £250. This is in line with HMRC's limit on the value in which they would not seek to recover tax charges on unauthorised payments. This is similar to the approach of other LGPS Funds who have published policies on the matter.

- 11 The recovery of debt is also very time intensive and requires a great deal of work within the Pensions Admin Team, Payroll Team, Pension Fund Accountants and monitoring from Financial Support Services. The amount and cost of work required was also a consideration in the Fund's decision not to invoice for amounts of overpaid pension under £250.
- 12 Where there are further benefits due to be paid however, the Fund will always seek to recover any amount of debt from these benefits within the shortest agreeable timescale.
- 13 HMRC deem any unrecovered debt (caused by overpaid pension) as an unauthorised payment. However, HMRC do not seek tax charges on amounts under £250, or where the overpaid pension relates to a period of less than 6 months following the scheme member's death. Any amount of pension overpayment above these limits, which is written-off, will attract unauthorised payment tax charges payable by the debtor and the Pension Fund. The Fund will aim to avoid unauthorised payment tax charges wherever possible.
- 14 Where a debt is owed by a current Scheme Employer or Admission Body, the Fund will exhaust the full Debt Recovery process. The Fund will always try to enforce the obligations of Employers whilst they are participating in the scheme, however, the Fund may consider writing off any debt which remains outstanding at the end of a valuation period. This is due to the ability to reflect the debt in the Actuarial Valuation of the employer and will result in a less favourable funding position and future employer contribution rate. The same principle may apply to debts owed by an Admission Body who has been given a guarantee from a Scheme Employer.
- 15 The full debt recovery process will be exhausted, and enforcement proceedings initiated for any debt owed by a company who is not a current participating Employer in Fund, or who does not have a guarantee from an actively participating Employer.
- 16 Officers will continue to be mindful that certain types of debts (listed within the Policy) can be deemed as unrecoverable.

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