

PENSION SCHEME – AUTOMATIC ENROLEMENT

EXECUTIVE MEMBER: Councillor Gillian Troughton
LEAD OFFICER: Darienne Law – Head of Corporate Resources
REPORT AUTHOR: Ann Treble – Financial Management and Treasury Accountant

Summary:

To advise Executive on the impact of automatic enrolment into a workplace pension legislation, (auto enrol).

Once the results of the local government triennial pension scheme review (LGPS) are known, later in the month (November), a paper on the financial impact of this will be prepared for Members and an update of the implications of auto enrol, based on those figures will be included.

Recommendations:

Executive are asked to;

- (i) Receive feedback from Personnel Panel (PP) on this report (reported to PP 18 11 13)
- (ii) Approve option 2 – deferment in auto enrol date until October 2017.
- (iii) Approve the use of £2k in the current year and each year thereafter to fund software option/upgrades to the payroll system, which are necessary, as a result of auto enrol obligations placed on the authority.
- (iv) Note the contribution rate required to be paid by the authority is subject to change, see paragraph 3.4
- (v) Refer to Appendix A for summary of obligations

1 INTRODUCTION

- 1.1 Life expectancy in the UK is increasing but at the same time people are saving less in to pensions, meaning millions of people are not saving enough to have the income they are likely to need in retirement. 100 years ago there were 10 working people for every pensioner, in 2010 this had dropped to just 3 and it is expected to drop further by 2050.
- 1.2 To combat this, National Government introduced The Pension Act 2008 and its supporting regulations require employers to **automatically enrol** all eligible workers into a workplace pension and make a contribution to it.

1.3 This process of auto enrol commences in October 2012 and is phased over six years depending on the size of organisation (larger organisations first). For Copeland the effective date is 1 January 2014.

2 NATIONAL CONTEXT

2.1 Since the staging process of auto enrol begun, in October 2012, 95% of employees have elected to remain in the pension scheme following auto enrol, i.e. only 5% have opted back out.

2.2 If employees choose not to 'auto enrol' or do but then 'opt out' there is a duty to automatically enrol them back into scheme at regular intervals, usually every 3 years.

3 COPELAND

3.1 Under the regulations Copeland is classed as a large employer and is therefore required to auto enrol in an early phase. Our date for auto enrol is 1 January 2014.

3.2 The LGPS has in fact been operating 'contractual enrolment' for all new starters for the past two years. Whilst this is technically different to 'auto enrol' it means that only; (i) staff who were employed before this date and did not join the scheme and (ii) those new starters that were auto enrolled within the past two years and then opted out voluntary will be affected.

3.3 Copeland Borough Council currently has;

- an establishment (current as at September 2013) of 256 people/posts who, dependent upon salary and age will be required to be automatically enrolled (if meeting age and/or salary criteria
- 51 councillors – not workers with a contract of employment and therefore not affected by the rules of auto enrol.
- 38 individuals in connection with the Electoral process - we do not have a duty to auto enrol as earnings less than prescribed minimum of £5669 but they could join if they wished but we don't have to contribute. However it is more likely that as these individuals will only appear on our payroll for one month in the year, we would defer these individuals for the prescribed three months after which time they will no longer be employed.)

3.4 Table 1 below shows our duty to 256 employees/establishment posts regarding auto enrol

Table 1

Classification of employee	Number of employees	Number of employees already in scheme	Number that need to be auto enrolled	Number that DO NOT need to be auto enrolled but can choose to join
Posts with earnings above £9,440	227	176	50	1
Posts with earnings between £5,669-£9,440	24	12	11	1
Posts with earnings	5	1	0	4

below £5,668				
Total	256	189	61	6

*If an employee is aged 16 to 21 or state pension age to 74 they are classed as non-eligible (even if their earnings are at an appropriate level). This applies 5 current employees who are not in the scheme at present and is reflected above.

- 3.5 The table below shows the **current year cost** of contributions for scheme members and the projection for the **current year cost** for the number of **current employees** that would need to be auto enrolled

Table 2

	Costs in current establishment *	Projected on current contribution cost (100% take up)	Projected on current contribution cost (95% take up)	Projected on current contribution cost (75% take up)	Projected on 1% increase in current 'ers contribution rate (95% take up)	Projected on 2% increase in current 'ers contribution rate (95% take up)
	£000's	£000's	£000's	£000's	£000's	£000's
189 scheme members	900	900	900	900	909	918
67 currently non scheme members	-	203	193**	152**	195***	197***
Totals	900	1,103	1,093	1,052	1,104	1,115

*Establishment as of September 2013 (vacancies funded)

**£value at 95%/75% not individual posts

***£value uplifted by increase 1%/2% then at 95%

- 3.6 As can be seen in the table above the financial impact of auto enrol is estimated to be somewhere between £150k and 200K a year, dependent upon; changes in establishment, take up by employees and changes in employers contribution rate.
- 3.7 Copeland currently contributes to its employees pensions at a rate of 20.1%. Implications of LGPS triennial review will be notified to the authority later this month (November 2013), however it is anticipated at this stage that this will result in an increase in employers contribution from the current rate of 20.1%, which will impact on the overall cost for the authority.

4. OPTIONS

- 4.1 Under the regulations there are a number of options available to DEFER auto enrol:
- 1) 'once the pensions regulator has notified employers of their date to enrol.....employers can choose to postpone automatic enrolment for up to three months from that date'
As our date for auto enrol is 1 January 2014, we could defer until the 1 April 2014.

- 2) there is a different transitional period for qualifying schemes (LGPS is a qualifying scheme) and employers 'who choose these schemes do not have to automatically enrol their workers until September 2017' or
- 3) Copeland could auto enroll on its specified date of 1 January 2014.

Options:	Pros:	Cons:
Option 1		
Post pone from 1 January 2014 to 1 April 2014	✓ Align auto enrol date with changes to pension scheme	*May affect individuals in retirement – though mitigated by option for individual to join at any time
	✓ Save circa £50k in 2013/14 for 3 months employer's contributions not budgeted for.	*Need to communicate deferment to our relevant staff within one month of auto enrol date
	✓ Does not prevent any employee from joining the scheme at any time	*Cost of circa £150k pa for 2014/15, 2015/16 2016/17 (assuming £200k cost pa but that some employees opted in) not budgeted for.
	✓ Auto enrol has an opt out and refund period, auto enrolling after January would mean this period of increased work load (should people opt out) will not impact on the payroll department at year end	
	✓ All eligible new starters will be auto enrolled	
Option 2		
Post pone from 1 January 2014 to 1 October 2017	✓ Does not prevent any employee from joining the scheme at any time	*May affect individuals in retirement – though mitigated by option for individual to join at any time
	✓ Save circa £50k for 2013/14 and circa £150k pa for 2014/15, 2015/16 2016/17 (assuming £200k cost pa but that some employees opted in)	*Need to communicate deferment to our relevant staff within one month of auto enrol date

	✓ Auto enrol has an opt out and refund period, auto enrolling after January would mean this period of increased work load (should people opt out) will not impact on the payroll department at year end	
	✓ All eligible new starters will be auto enrolled	
Option 3		
Auto enrol on our given date 1 January 2014	✓ Individuals auto enrolled at first available date	*Cost of circa £50k in 2013/14 not budgeted for
		*Cost of circa £150k pa for 2014/15, 2015/16 2016/17 (assuming £200k cost pa but that some employees opted in) not budgeted for.
		*Auto enrol has an opt out and refund period, auto enrolling in January would mean this period of increased work load (should people opt out) will impact on the payroll department at year end

- 4.2 If the authority opts to defer auto enrol by options 1) or 2) above, there is nothing to prevent existing employees who are currently non scheme members from applying individually to become so, and the process for new employees would remain unchanged – i.e. they would be contractually enrolled upon commencement of their employment.
- 4.3 Any deferment of the auto enrol date would require all employees to be notified of this deferment with one month of the auto enrol date of 1 January 2014.

5. RESOURCE REQUIREMENTS

- 5.1 The administrative processes involved in auto enrol are many and onerous, but are the same regardless of which option we choose;
- * Pre Staging date (1 January 2014): Initial assessment of all staff, Initial letters to all staff, Registration with The Pensions Regulator
 - * Post Staging date (1 January 2014): Specific letters to all staff, monthly assessment and appropriate notifications/postponements issued with opt outs/refunds processed. Also need for auto enrol process to be carried out every three years.
- 5.2 The financial implications in relation to the council's current budget and MTFs are detailed in the report.

- 5.3 We will need to provide a number of workshops/roadshows for employees to inform them of the changes for auto enrol as well as the introduction of the new scheme. It is envisaged these will take place in January/February 2014.
- 5.4 Initial set up for auto enrol for current employees. Note that whilst table 1 above shows 61 posts that would require auto enrol some of these are currently vacant.
- 5.5 There will be an on-going obligation to auto enrol every 3 years from the date of initial auto enrol

6 STATUTORY OFFICER COMMENTS

6.1 The Monitoring Officer's comments are: Report requires agreement of Personnel Panel and subsequently Executive

6.2 The Section 151 Officer's comments are:

The auto enrol on our specified date or a three month deferment to 1 April, was initially considered on the basis that it would be less administratively complex and simpler for employees to understand. It also underlined the council's commitment to the benefits of memberships of the LGPS and the benefits which both the council as the employer and the employees enjoy from partition in the scheme. This original consideration however was superseded, given the budgetary implications and the fact that the effected employees have taken an active decision to opt out of the pension scheme once already.

Forcing entry to the pension scheme could cause hardship to employees in managing their cash flow because although they can opt again and receive a refund of contributions their pay will be reduced for the initial pay period. Remaining in the scheme will provide immediate life and ill health cover but receipt of a small pension on retirement may impact on means tested state scheme benefits.

6.3 EIA Comment: The LGPS is administered by Lancashire County Council in line with salient rules and regulations. Whilst we recognise that not all employees may want or be able to join the scheme as an equal opportunities employer, we ensure that the scheme is promoted and made available to all eligible employees.

6.4 Policy Framework: HR policies, including those relating to pay and terms and conditions, form an integral part of the Council's policy Framework.

6.5 Other consultee comments, if any:

7 HOW WILL THE PROPOSALS BE PROJECT MANAGED AND HOW ARE THE RISKS GOING TO BE MANAGED?

7.1 The monthly payroll will need to incorporate an auto enrol eligibility monthly assessment and appropriate notifications/postponements to be issued and opt outs/refunds processed. The software enhancement will aid this process but will not diminish them.

- 7.2 Budget monitoring throughout the year will identify any financial implications of employees that choose to join as a result of the notification of postponement of auto enrol and will be reported monthly through Corporate Leadership Team and to Executive on a quarterly basis.
- 7.3 Triennial Auto enrollment will need to take place, with budgetary implications being reported at the time, once quantified.

8 WHAT MEASURABLE OUTCOMES OR OUTPUTS WILL ARISE FROM THIS REPORT?

- 8.1 The decision from this report will be fed into the revenue budget position for 2013/14 and future budgets if applicable and will determine the required use of reserves for this year and the level of general and earmarked reserves the Council will have available to support its revenue budget in future years.

List of Appendices

Appendix A – Outline of employers duties and obligations

Appendix A

Outline of employers' duties and obligations

You must:

Provide workers with information about the duties.

Automatically enrol all eligible jobholders ie those who are above the earnings threshold and between 22 and state pension age, into the automatic enrolment scheme.

If requested, allow all entitled workers to join a pensions savings scheme.

Provide written confirmation that the eligible jobholder has been automatically enrolled and how they can opt out.

Register with the regulator to give details such as the number of eligible jobholders enrolled.

Put into the qualifying scheme those non-eligible jobholders who have decided to opt in.

Remove from the scheme anyone who has decided to opt out within the opt-out period and promptly refund their contributions.

Automatically re-enrol and notify those eligible jobholders who opted out of the scheme and did not join another scheme, every three years.

Renew your registration after re-enrolment.

Keep records of what you have done to copy and make contributions to the scheme for jobholders.

You must not:

Induce your workers to opt out or cease their membership of the qualifying pension scheme.

Do or fail to do something which results in the worker ceasing to be in active membership whilst still employed by the employer.

Indicate during a recruitment process that a worker's decision to opt out of automatic enrolment will affect the outcome.