

Report To: Cabinet

Date of Meeting: 14th January 2013

Lead Cabinet Member: Councillor Julian Thompson-Hill

Lead Officer: Paul McGrady, Head of Finance & Assets

Title: Pension Auto Enrolment (Employer Responsibilities & Cost Implications)

1. What is the report about?

The Pensions Act 2008 requires employers to start automatically enrolling eligible staff into qualifying pension schemes. Employers now have a duty to automatically enrol eligible workers between the ages of 22 and State Pension Age into a qualifying workplace pension scheme. Automatic enrolment means instead of choosing whether to join a workplace pension scheme provided by their employer, all eligible workers will have to actively decide to cease membership, if for any reason they feel this is not a suitable form of personal saving for their situation.

Auto enrolment has started with larger employers from 1st October 2012 and media advertisements have now commenced to inform the public that if **they are not already** in a qualifying scheme then they will subsequently be enrolled by their employer. Denbighshire has to commence auto enrolling staff with effect from **1st May 2013** and this is referred to as our “staging date”, though the regulations allow for a transitional delay to be applied to this date.

2. What is the reason for making this report?

This report sets out the Council’s proposed response to these requirements, provides implementation options and recommendations that cabinet is requested to approve.

3. What are the Recommendations?

- 3.1 To begin auto enrolling all new staff or those who become eligible into the relevant pension scheme from 1 May 2013.
- 3.2 Delay auto enrolling staff who have previously decided not to join the relevant scheme until 1 October 2017
- 3.3 To note the cost implications associated with the implementation of the new regulations.

4. Report details

The Government wants to universally increase pension take-up as it is estimated that 14 million workers in the UK are not currently contributing to a workplace pension and at least 7 million are not saving enough to meet their retirement aspirations.

From October 2012, employers are legally compelled to enrol eligible jobholders into a qualifying pension scheme. An eligible jobholder is someone aged between 22 and the state pension age and who earns over £8,105 per annum. Elected Members are excluded. The Local Government Pension Scheme (LGPS) and Teachers' Pension Scheme (TPS) both satisfy the eligibility conditions.

Under auto enrolment regulations, employers can apply a transitional delay to full implementation until 1st October 2017. The delay would apply only to those who are eligible jobholders on the 1st May 2013 staging day. Based on current statistics, there are 467 people in the Council who are eligible jobholders but most have elected to opt out. Less than 2% of the eligible job holders will become eligible in the next year because of their age. The transitional delay means that the council would not automatically enrol them until 2017 – though the employees have the option to join either the LGPS or TPS at any time.

Employees who become *new* eligible jobholders after staging day will be enrolled at the time of eligibility and will not be delayed until October 2017. This will mean new employees or those who become eligible through their age or earnings will be automatically enrolled at some point from May 2013 onwards.

At a national level, encouraging people to make provisions for their retirement by auto enrolling them into a pension scheme has merit. However, the financial implications for employees who do not currently contribute to a pension scheme should be considered in the context of contributing between 4.4%-5.5% on average from their pay (after tax relief) in a period of pay freezes. Therefore some may feel this is an unaffordable investment and will continue to opt-out.

Auto enrolment will have financial implications for the council at a time when budgets are already under pressure. The employer's current service cost is 11.8% of gross pay for those in the LGPS and 14.1% for those in the TPS. It is difficult to be precise about what the additional cost to the council will be as a result of auto enrolment – it depends on how many people decide to remain in a pension scheme once enrolled and how much they earn – but applying the transitional delay will reduce the immediate financial impact.

The application of the auto enrolment regulations also has implications for non-teaching relief and casual staff, though the full impact and the council's proposed response are still being assessed. Historically, people with a contract of employment of less than three months would not be allowed into the LGPS. The rules around this have changed from 1st October 2012 and relief/casual employees can now *elect* to join the LGPS. As a consequence,

all relief/casual staff have recently been written to (around 1,200 people) asking if they would like to join the LGPS and around 40 have elected to do so. The LGPS rules though do not allow for relief/casual staff to be *automatically enrolled* if their employment contract is less than three months. However, to complicate matters, auto enrolment regulations do still apply if a casual/relief employee becomes an eligible jobholder by virtue of earnings and/or age. This potentially could mean that each time they work the council would have to take action to assess whether the people are eligible for auto enrolment and if they are, to make provision to auto enrol into a scheme other than the LGPS, or to invite people to join the LGPS.

The administrative burden around this is potentially quite significant and options are being considered to mitigate the impact. This includes reviewing the nature of relief/casual contracts or applying a period of postponement of up to 3 months (as allowed under the regulations) to assess eligibility over a longer period rather than decisions being based on an individual instance of employment.

When an employer automatically enrolls an employee, the employer **must not** mention any option of how to opt out of the scheme (the Pensions Regulator has stated that this could be seen as an inducement not to join a scheme and could leave the employer liable to financial penalties).

It is expected though that a number of auto enrolled employees will opt out of the scheme. The Department for Work & Pensions (DWP) has estimated that nationally between 20-40% of people will opt-out. The National Association of Pension Funds has estimated that figure to be 33%. DWP research found that 65% of respondents would definitely or probably stay enrolled, whilst 20% would probably or definitely opt out. The majority of corporate financial advisors predict almost 33% would opt out.

It is impossible to forecast accurately what the additional cost of auto enrolment will be, though it is clear that by applying the allowed transitional delay, the council will defer the potential full cost for four years.

In summary, the action taken to date and proposed is as follows:

Date	Action
October 2012	LGPS Rules changed – 1,200 casual/relief employees invited to join the LGPS
May 2013	Staging Date – Implementation of Auto Enrolment
May 2013	Apply transitional delay to those who have already opted out of a pension scheme
May 2013	Inform employees to whom transitional delay has been applied, making clear they can opt into a pension scheme if they so wish
From May 2013	Auto enrol new eligible employees
October 2017	Auto enrol employees to whom transitional delay has been applied

The Council also provides payroll services to other organisations that will also be impacted by the change in regulations. Appendix A details these.

5. How does the decision contribute to the Corporate Priorities?

The decision is a response to a change in employment regulations.

6. What will it cost and how will it affect other services?

Auto enrolment will increase employer's pension contributions as more people become members of either the Local Government or Teachers' scheme. It will add to employment costs and therefore all services, including schools, will be affected. Applying a transitional delay will defer some of the increased costs. The total estimated cost to the Council of this scheme is around £580k per year from 2017

Appendix B details the likely financial implications.

The council's payroll system is being developed to facilitate auto enrolment and the costs are likely to be £25-£30k. There will be additional administrative issues associated with auto enrolment but the additional workload will be absorbed without additional cost.

7. What are the main conclusions of the Equality Impact Assessment (EqIA) undertaken on the decision?

The aim of the scheme is to get all staff to pay into a pension. This will broadly have a long term benefit to all staff. This is offset by the short term disadvantage of having to contribute to the pension fund. All relevant staff already can become part of the Council's pension scheme if they want. Likewise all staff can opt out at any time under the new proposals. This means that should any person feel disadvantaged they can choose not to participate. Research shows that relatively high numbers of staff (typically 66%) will remain in once auto enrolled.

Anyone affected either has been or will be written to explaining the changes and inviting them to join voluntarily.

8. What consultations have been carried out?

Consulted with other Local Authorities in order to obtain feedback on decision making taking place elsewhere.

Consultations have taken place with external employer organisations using the Council's Payroll Service.

9. Chief Finance Officer Statement

The full impact of the changes in pension regulations can only be estimated at this stage. The actual cost will depend on the numbers of people either electing to join or being auto enrolled into pension schemes and their earnings. The ongoing additional costs that result from the changes will be a pressure for services.

10. What risks are there and is there anything we can do to reduce them?

The risk to the Council of not complying with the legislation is that it could be liable to fines by the Pensions Regulator (max fine £10,000 per day)

11. Power to make the decision

Operates within Statutory Government Legislation (Pensions Act 2008)
Regulations allow a transitional delay and postponement period, so employer decision required.

Appendix A

Other Organisations using the Council's Payroll Service

The following organisations use the council's payroll service:

Clwyd Leisure, Denbighshire Voluntary Agency, Bodelwyddan Castle Trust, Scala, Menter Iaith, Cadwyn Clwyd, ECTARC, Benefits Advice Shop, Denbighshire Enterprise Agency, Town Councils , West Rhyl Young People

The council complies with auto enrolment regulations by using only the Local Government and Teachers schemes and therefore does not need to seek an alternate pension provider. Other employers using the council's payroll service would need to find another pension provider, as in most cases their staff are not eligible to join either of the council pension schemes. If these other organisations choose to delay auto enrolment until 1st February 2016 (a different date from the council's 2017 date because of the size of the organisations), then the council would be able to continue providing payroll services, at least until that date. At present most of the organisations are indicating that they would be delaying and would like to continue using the council's payroll services.

To provide a service where the Council has to offer multiple pension providers to the other organisations would increase the administrative burden and would incur an additional cost because specific programming work would be needed to accommodate the requirements.

Appendix B – Estimated Costs of Scheme

In 2011/2012 the council paid the following employer pension costs:

- Local Government Pension (inc past liability charges) £12.5m
- Teacher's Pension £4.7m

The employer's contribution to the LGPS is expected to rise by 0.6% from 2014/15 as a result of the latest actuarial review of the pension fund. This will increase the employer's costs by £60-£65k per year.

Some employees have more than one employment with the council, therefore shown below are the number of 'employments' in each scheme.

Details	Number of Employments
Teachers Pension Scheme	1,176
Local Government Pension Scheme	3,390
Number Opted Out	821
Relief / Casuals (not previously allowed in)	1,310

Potential Impact With No Transitional Delay

The table below shows an illustration of the potential annual additional cost if people who have currently opted out were auto-enrolled – i.e. if transitional delay is not applied. Based on assumptions about numbers of people remaining in the scheme and their average earnings, then potentially employer's costs could increase by £548k per year. This figure is by no means certain. Eligible jobholders and their pensionable pay figures are correct as at the end of November but could change and the assumption that 2/3rd (66%) of eligible job holders stay in the scheme is based purely on external research.

Opt Out Group	Current No.	Eligible Job Holders	2/3 rd Remain	Average Pay	Employer's Contribution %	Additional Pension Cost
Local Govt	708	412	275	£16,063	11.80%	£521,244
Teacher	36	34	23	£27,975	14.10%	£90,722
Teacher (Relief)	77	21	14	£19,508	14.10%	£38,508
Total	821	467	312			£650,474
					Saving NI	(£101,917)
						£548,557

The impact of the above across the main service sectors would be as follows:

Service Area	Gross Cost	NI Saving	Net Cost
Schools	£325,749	(£51,714)	£274,035
Social Care	£72,886	(£11,443)	£61,443
Other Services	£251,839	(£38,760)	£213,079
Total	£650,474	(£101,917)	£548,557

If transitional delay is applied, the council is obliged to write to all of the people above to inform them. The regulations require that at that point people are reminded about the opportunity to opt into a scheme. It is difficult to estimate how many employees will opt in and therefore to calculate the impact. However, the range may be as follows:

Range	20%	40%	66.7%
Schools	82,382	164,764	274,035
Social Care	18,433	36,866	61,433
Other	63,198	126,396	213,079
Total	164,013	328,026	548,557

Given that the majority of people affected have previously opted out of joining a pension scheme it might be assumed that the number electing to join would be at the lower end of the range, between 20-40%. Only a small number (less than 2%) will become eligible by their age and the number of relief casual staff either electing to join or becoming eligible for auto enrolment is thought to be low. The planning assumption for 2013/14 should therefore be in the range of £164-£328k.