Agenda item: 4

Title of meeting:	Employment Committee
Date of meeting:	2 October 2012
Subject:	Pension Auto Enrolment
Report by:	Shaun Tetley, Payroll and Pension Manager
Wards affected:	None
Key decision:	No
Full Council decision:	No

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1. Purpose of report

To advise the Employment Committee of the new pension reform legislation covering auto enrolment and to seek approval to the following recommendations.

2. Recommendations

2.1 The City Council opts to use the transitional arrangements to defer the assessment of the existing workforce from 1 April 2013 to 30 September 2017.

2.2 The City Council defers the eligibility to auto-enrolment for casual workers for 3 months from their commencement date.

2.3 Members delegate administrative decision making on auto-enrolment to officers where issues are identified in the local authority working party meetings (see 3.7 below).

3. Background

3.1 The Pensions Act 2011 requires employers to automatically enrol eligible employees into a qualifying pension scheme where they are not currently a member. This task then needs to be repeated every 3 years. This imposes significant administrative burdens on the City Council and has financial implications.

3.2 The main aim of the legislation is to increase pension provision in the private sector, however, the legislation will require organisations across all sectors to comply. All staff in Local Authorities are eligible to join an occupational pension scheme at any time but despite this, all Local Authorities will still be required to undertake the added administration of automatically enrolling all eligible employees. A number of authorities wrote to the Secretary of State for Communities and Local Government (The Rt. Hon. Eric Pickles) to complain about this unnecessary burden and a copy of the letter from The Leader of Portsmouth City Council is attached.

3.3 The legislation will affect all employers in the country. The implementation date or staging date (to use the terminology in the regulations) is scheduled to take effect on a sliding timescale based upon the employee headcount. The largest employers (120,000+ employees) are staging on 1st October 2012. The staging date for PCC is 1st April 2013.

3.4 The following list is a summary of the tasks required to implement auto enrolment:

- automatically enrol all ‘eligible’ jobholders into either the Local Government Pension Scheme (LGPS) or Teachers Pension Scheme (TPS) and re-enrol those who have opted out every three years
- provide information to ‘eligible’ and ‘non eligible’ jobholders about auto enrolment and pensions
- monitor workers every month to assess their eligibility and automatically enrol them when they become eligible
- process requests to opt in and out of a pension scheme and refund pension contributions if required
- keep accurate records
- prevent unfair treatment of workers on grounds related to the employer duties (for example, taking action to induce a jobholder to opt out of the pension scheme or screening during recruitment on grounds relating to potential pension scheme membership)
- provide support to the external organisations on the PCC payroll to ensure they comply with the auto enrolment legislation
- write to all casual staff to make them aware of the changes in the LGPS regulations from 1 October 2012 that allows them to be admitted to the scheme. This will ensure that all PCC staff who meet the auto enrolment eligibility criteria, have a qualifying pension scheme they can join

3.5 The statistics of our workforce indicate that we already have a high participation of pension scheme members as follows:

Local Government Pension Scheme members - non schools	76%
Local Government Pension Scheme members - schools (lower due to high numbers of p/t staff)	61%
Teachers Pension Scheme members	95%

Auto-enrolment (AE) will require us to assess all staff who are not currently pension scheme members and depending on age and level of earnings, some will need to be automatically enrolled into a pension scheme. The assessment will also need to be carried out every month to capture eligible employees.

3.6 Public sector employers are required by law to use the relevant public sector pension scheme to automatically enrol their employees. In Portsmouth we have 2 main schemes, the Local Government Pension Scheme (LGPS) and the Teachers Pension Scheme (TP). We will have to establish new auto-enrolment pension arrangements for external organisations if no pension provision exists and we have a number of ‘external’ organisations on the City Council payroll who will be affected.

These organisations will need to select an external pension provider who offers a certified qualifying scheme.

3.7 An implementation local authority working group has been set up with representatives from PCC, Hampshire County Council, Southampton City Council and other key Hampshire authorities. This collaborative approach will assist in identifying the key issues and should ensure that the application of the regulations is applied consistently and meets the compliance obligations. The meetings are at an early stage and as they progress there will be some decision making issues that require resolution. Three implementation issues have been identified to date and these are set out below.

3.7.1 <u>Deferral of assessment</u>

There is scope within the regulations for employers with Defined Benefit schemes to defer assessment of a large number of the existing workforce (as at the staging date) until the end of the transitional period which is 30 September 2017. There is no detriment to staff as they can opt to join the pension scheme at any time and so it is expected that the majority of the LAs will opt to apply the transitional arrangements to ease the administrative burden and reduce the associated costs. What this means is that all of our non pension scheme members who earn greater than £8,105 and are age 22 or over will not need to be assessed until October 2017.

Under the terms of deferral, AE systems would still need to be in place for:

- All new starters joining after our staging date
- Staff not covered by the transitional arrangements

It is the assessment of the majority of the existing workforce (as at the staging date) that could be delayed for 4.5 years. Irrespective of which date we decide to select for implementing AE, our future re-enrolment dates are anchored at every 3 years from the staging date.

If all PCC staff who are eligible for auto enrolment decided to remain in their respective pension schemes (i.e. those that have currently not joined/opted in), it is forecast that the cost to the Authority would be £3.2m per annum (£2.85m LGPS plus £0.35m TPS). It would be expected however, that following AE, a large number of staff will decide to opt out of pension scheme membership and it is estimated that this will be as high as 80%. By way of example, the cost to the authority based on a 20% pension scheme retention rate would be £640,000 per annum (£570,000 LGPS plus £70,000 TPS). It is difficult to assess the number of staff who will choose to remain in their respective pension schemes post auto enrolment.

Therefore a deferment until the transition date of 30 September 2017 could avoid costs of over £2.88m (both LGPS and TPS). Please note that this cost does not include adjustments in the employers NIC rate and this would lower any potential cost.

There are several key advantages to deferring the assessment of the existing workforce:

- There is no detriment to staff as they can opt to join the pension scheme at any time and we will need to write to all staff to advise them of this fact in April 2013
- The software changes to required to implement AE are complex and deferment will allow more time to develop better systems and processes
- There will be fewer staff to assess
- There will be a reduced cost to the Authority
- We have to implement a major HMRC software tax change in 2013/2014
- We are in the process of implementing HR Self Service, i-expenses and a major Oracle software upgrade
- We will have the usual peak end of financial year closedown tasks

There are no disadvantages in deferring the assessment until 30 September 2017 and this is why recommendation 2.1 above supports this action.

3.7.2 <u>Deferring auto enrolment for certain categories of worker</u>

There is also scope within the regulations to defer auto enrolment for certain types of worker for up to 3 months. It is appropriate that we use this provision for casual workers for a number of reasons:

- It would provide the council with a more manageable timescale to complete the necessary administrative tasks such as assessing eligibility
- It would avoid auto enrolling casual staff who are only engaged for a very short duration
- It would overcome the issues often encountered with late notification of casual engagements
- It has a logical fit to the new LGPS regulations that allow casual staff to join the pension scheme

There is a further advantage that casual staff will still need to be 'eligible' for AE at the end of the 3 month period and in many cases they may not satisfy the entry criteria at the 3 month anniversary period. It is also a fact that very few casual workers will be interested in joining a pension scheme. Taking all these factors into account, it seems appropriate to use the deferral option and this is the recommendation in 2.2 above.

3.7.3 Postponement of staging date

The regulations also allow all employers to move their staging date by up to 3 months either side of their scheduled staging date. As the PCC staging date is 1 April 2013 this gives us the flexibility to implement auto-enrolment between 1 January 2013 and 1 July 2013.

There is no advantage in bringing forward the staging date. To do this would increase the employer pension costs and reduce the scope to test the software changes and therefore increase the risk of non-compliance.

Equally, there seems to be little advantage in moving the staging date forward on the basis that we will need to write to staff twice within three months to make them aware of their pension rights. Further, assuming members approve the recommendation to adopt the transitional arrangement (recommendation 3.7.1) the number of staff we will need to assess during the three months will be relatively low.

5. Equality impact assessment (EIA)

A preliminary EIA has been undertaken and no negative impact on any of the equality groups has been identified.

6. Head of legal, licensing & registrars' comments

There are no legal implications arising from this report.

7. Head of finance's comments

All of the relevant financial implications are contained within the body of the report.

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Signed by:

Appendices:

Background list of documents: Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Title of document	Location
The Pensions Act 2008	http://www.legislation.gov.uk/ukpga/2008/30/pdfs/ukpga_20080030_en.pdf

The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by ……………………………… on ………………………………

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Signed by: