

EMPLOYMENT MATTERS COMMITTEE

19 FEBRUARY 2013

WORK PLACE PENSIONS - AUTO ENROLMENT

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Summary

This paper provides information about the reform of workplace pensions, with a proposal to evoke the transitional arrangements for postponement.

1. Budget and Policy Framework

- 1.1 This matter falls within the remit of this Committee's terms of reference.
- 1.2 There is a need for urgency, due to the potential financial liability for the next and future financial years. In addition, we are required to communicate this decision to all Medway Council employees.

2. Background

- 2.1 All Medway Council employees have a contractual right to join either the Local Government Pension Scheme (LGPS) or Teachers Pension Scheme, either by default or by written election. The employee also has a right to "opt-out" of the scheme at any time.
- 2.2 Legislative provisions have been introduced which requires all employers to automatically enrol eligible workers into a workplace pension scheme every 3 years. These reforms were originally legislated for in the "Pensions Act 2008".
- 2.3 The scheme should include an employer contribution; currently set at 19.5% of earnings for Medway Council staff, and 14.1% for teachers.
- 2.4 The staging date for Medway Council is 1 April 2013.
- 2.5 These regulations also allow employers with defined benefit pension schemes to evoke a transitional period until 30 September 2017. Medway Council seeks to use these transitional arrangements.

3. Options

- 3.1 Medway Council can enrol all “eligible job holders” into either the LGPS or Teachers Pension Schemes on 1 April 2013. An eligible job holder is defined as a worker aged between 22 and 74, who will have an annual earnings level of at least £9,440.
- 3.2 Medway Council can choose to evoke the transitional arrangements for its employees, which will mean that Auto-Enrolment is postponed until 30 September 2017.

4. Advice and analysis

- 4.1 As existing contractual regulations mean that all employees already have the benefit of enrolment into either the LGPS or Teachers pension schemes, utilising the transitional arrangements gives an opportunity to establish the impact of new Auto Enrolment regulations, the effects of organisational restructuring and likely opt out rates.
- 4.2 Evoking the transition arrangements helps manage any risks for the organisation.
- 4.3 Should a large proportion of employees who are not currently within a pension scheme become members, then the transitional period would minimise the risk of exposure to costs for the authority over this period. Based on existing salary levels and employer contribution rates, this could be as much as an additional £2.5million each year.
- 4.4 Although the auto enrolment process is intended to increase pension scheme members and would therefore increase employer contribution costs, it is possible that the opposite could be the case. By raising the awareness that opt out is an option, particularly in a tough economic climate, it could result in more people choosing to leave the scheme.
- 4.5 Currently, therefore, the overall impact on pension scheme membership is unclear, however, the Council will monitor this and report back to this Committee if necessary.

5. Risk management

- 5.1 By not using the transitional arrangements, there will be an increased cost to Medway Council’s employer contribution rate to a maximum of £2.5 million each year.
- 5.2 The Payroll and HR department will be required to undertake a substantial amount of administration if we do not use the transitional arrangements. This will include the completion of documentation that is required by the pension fund administrators each time an employee joins or leaves the LGPS or Teachers Pension schemes.
- 5.3 If we do not use the transitional arrangements, a number of deductions will be made from the pay of our employees, who may subsequently request to opt-out. This will result in an increase to refunds that we will have to make, again increasing the amount of administration.

- 5.4 The implementation of Auto Enrolment could cause confusion for some staff. For example, differences between scheme regulations and the new law could mean that employees who opt out of the LGPS or Teachers schemes contractually could find themselves being automatically enrolled again a month later.

6. Consultation

- 6.1 Medway Council have attended Auto Enrolment workshops and pension seminars and have discussed the options with other Local Authorities in Kent.
- 6.2 Kent County Council, which has a staging date of March 2013, has already decided to use the transitional arrangements. Other Local Authorities may not yet have made a decision as they are not staged to implement Auto Enrolment until later.

7. Financial and legal implications

- 7.1 The Council is now legally obliged under the Pension Act 2008 to enter all eligible employees into a pension scheme and make a contribution to it. The regulations makes provisions for the council as an employer, to make use of transitional arrangements in implementing these new arrangements.
- 7.2 The maximum potential impact of auto-enrolment is around £2.5 million per annum, with approximately £850,000 attributable to schools and £1.65million to other directorates. However it is unlikely that this would materialise as most staff who are admitted automatically would voluntarily decide to opt out. As such, a more realistic estimate of those remaining in the scheme would be between 10% and 25%. This would mean that for 10% of opt-ins remaining in the scheme, the cost to Medway Council would be reduced to £85,000 for schools and £165,000 for other directorates. Should 25% of opt-ins remain in the scheme, the cost to Medway Council would be £212,000 for schools and £412,000 for other directorates.
- 7.3 In accordance with the regulations we will need to assess the category of each worker and will be required to notify all employees, including existing pension scheme members, of our decision during March 2013.
- 7.4 We will be required to notify the Pension Regulator of our decision within 3 months of our staging date i.e. by 30 June 2013.

8. Recommendation

- 8.1 The Committee is asked to agree that Medway Council uses the transitional arrangements to postpone Auto Enrolment until 30 September 2017.

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Background papers

Pensions Act 2008 – <http://www.legislation.gov.uk/ukpga/2008/30/contents>

Pensions Regulator –

<http://www.thepensionsregulator.gov.uk/employers/background-information.aspx>