

EXECUTIVE – 5 JUNE 2013

REPORT OF DEPUTY CHIEF EXECUTIVE (CORPORATE DIRECTION)

AUTO ENROLMENT – CHANGES TO THE PENSION SCHEME

WARDS AFFECTED: ALL WARDS



Hinckley & Bosworth
Borough Council

A Borough to be proud of

1. **PURPOSE OF REPORT**

This report considers the impact of Auto Enrolment for the Council and to consider whether to elect for deferred auto enrolment until 1 April 2017 for non pension scheme members.

2. **RECOMMENDATION**

That the Council defer auto enrolment of staff that previously opted out of the pension scheme until April 2017.

3. **BACKGROUND TO THE REPORT**

- 3.1 As part of the new pension reform, with effect from October 2012, all UK employers with more than 50 employees must automatically enroll all 'eligible jobholders' into a 'qualifying scheme' and invite most others to join the scheme. This affects all LGPS employers. The new duties for an employer will be phased in, using staging dates based upon the PAYE group, starting with the largest employers (employees in excess of 120,000) from October 2012.
- 3.2 As soon as employers hit their staging date they will be required to:
- provide a 'qualifying scheme' (of which the LGPS is a defined benefit scheme)
 - provide information to all staff, for example telling 'eligible employees' that they are being automatically enrolled and have the right to opt out. Employers cannot encourage staff to opt out. Other categories of staff must be told about the pension scheme and about their right to opt in.
 - automatically enrol all 'eligible jobholders' (employees who earn more than £8,105 pa, are aged 22 years or over and below the state pension age)
 - register with the Pensions Regulator and maintain adequate records, and
 - repeat this auto-enrolment process every three years, for employees who have opted out.
- 3.3 The staging date for HBBC is 1 November 2013. With effect from this date, existing workers already in the LGPS will remain in the scheme. For the remaining staff, the Council must carry out an assessment of its workforce to determine which employees are 'eligible jobholders' under the duty.
- 3.4 The Council already operates auto enrolment (with the right to opt out) for all employees in the LGPS. The LGPS is a qualifying scheme under the new regulations, as it is a defined benefit scheme. The introduction of auto enrolment for eligible jobholders means that an employee can still opt out but must do so directly with the LCC Pension Section; this will repeat every three years.
- 3.5 Until February 2012 the regulations stated that all eligible jobholders not members of the pension scheme at staging date must be auto enrolled. However the Government

introduced a late amendment to the regulations giving employers of Defined Benefit Pension schemes (including Local Authorities), the ability to defer auto enrolment of staff that previously opted out until April 2017. New employees at staging date will be automatically enrolled from 1 November 2013.

- 3.6 There may be justifiable reasons to defer, such as financial impact however consideration should be given to local authorities supporting the national agenda in regard to increasing pension provision. To draw a comparison at a local level, Leicestershire County Council has decided to defer until 2017 yet Leicestershire Fire and Rescue has embraced auto enrolment and plans to implement on the staging date.

4. EMPLOYER RESPONSIBILITIES

- 4.1 Communication – The new regulations require individual and targeted communication for three types of worker at particular dates aligned to the staging date. General communication must take place 1 month prior to the staging date, i.e. on or before 1 October 2013. The impact of this is that the Council will continue to auto-enrol as now but with different forms. Different communication needs to be sent to the staff in the differing type 1, 2 and 3 bands. The format of the communication will be determined by the Pension Regulator.

If the employer opts to defer existing eligible staff at the staging date (Type 1), it must advise the employee that it is deferred until November 2017 however they can opt in voluntarily.

- 4.2 Record Keeping – all employers must set up and maintain detailed records of Type 1,2 and 3 employees whether scheme members or not and including details of communication issued to employees. These must be submitted to the regulator and the HR system will need to be upgraded to ensure that when employees pass age and income bands triggers it will highlight when employees are to be auto enrolled. If the Council decides to defer Type 1 employees until 2017 then individual details must be provided to the regulator. Whilst the system's upgrade will support trigger points, there will be an impact upon the level of administration within the HR team.

- 4.3 Managing Opt Outs – currently all staff are auto enrolled into the LGPS with the right to opt out. Therefore it is possible to opt out as an employee before becoming a member. Under the new regulations all jobholders have the right to opt out but the process is now managed by the pension administrator. For example, it is not permitted under the regulation for employers to advise relevant staff on or before the staging date that they will be auto enrolled but can opt out if they wish. Type 1 employees who are auto enrolled must become members of a scheme before they opt out, and even then, the opt out is managed by the administrator rather than the employer (i.e. previously HBBC would keep opt out forms and inform LCC). The Pensions Regulator has announced that there will be fines and penalties for employers attempting to induce staff to opt out as well as operating inadequate/incorrect communication or record keeping.

5. IMPACT OF AUTO ENROLMENT

- 5.1 Financial Impact – Employees need to be assessed to determine which category they fall under (Table 1) as this determines which employee must be auto enrolled (eligible job holder) or 'invited to join' (entitled worker).

Table 1

Age	16-21 years	22 years – State Pension Age	State Pension Age – 74 years
Earning under £5,564	Entitled Worker		
Earnings between £5,564 and £8,105	Non-Eligible Jobholder		
Earnings Above £8,105	Non-Eligible Jobholder	Eligible Jobholder	Non-Eligible Jobholder

- 5.2 Table 2 provides an analysis of employees within the service area who are not currently members of the pension scheme

Table 2

Type	Eligible Worker	Non Eligible Worker	Entitled Worker	Total
Number of staff	89	14	9	112

For illustration purposes, based on pay in 2012/13 for current non pensionable staff (Table 2) and if all staff auto enrolled/invited to join to become members, the maximum amount of additional pension contribution per annum is £327,224

4. FINANCIAL IMPLICATIONS [KB]

- 4.1 Any additional pension contributions that are required as a result of these changes will be charged to the officers cost centre and the relevant “fund”. For 2013/14, the potential impact will be based on 5 months charges (i.e. November 2012 – March 2013). The impact of this and the full year impact are detailed below:

	5 month impact (£)	Full year impact (£)
General Fund (non depot staff)	41,468	99,523
General Fund (depot staff)	65,156	156,374
Housing Revenue Account	29,720	71,327
Total	136,343	327,224

- 4.2 From the above it is evident that the largest area of potential cost is for those officers currently employed at the depot.
- 4.3 These calculations are based on the assumption that all eligible individuals opt in at the set date and are therefore the maximum exposure that may occur. This calculation has been forecast based on the notified employer contributions for the scheme for 2013/14 however these may be subject to review in future years.
- 4.4 In addition to the cost of contributions, the Council is also forecasting additional development costs of £1,000 needed to prepare the payroll system for these changes. Additional consultancy days may also be required. The Council has a “Pensions Contributions” reserve in place which to fund additional contributions. The value of this reserve as at 1st April 2012 was £49,000.

4.5 Local Authorities are required to account for pension and retirement benefits as outlined by International Accounting Standard 19 (IAS19). Additional contributions and members will impact the Council's liability value which reflects the future costs of the scheme. This will be determined by the LGPS actuary "Hymans Robertson" at year end.

5. LEGAL IMPLICATIONS [LH]

Contained within the report.

6. CORPORATE PLAN IMPLICATIONS

This report is required due to changes in pension legislation.

7. CONSULTATION

Consultation has taken place with Unison both at regional and branch level and feedback was received on 22 February 2013 (letter of response attached). Unison does not support deferring until 2017 as it has campaigned for auto enrolment at national level and argues that by not auto enrolling, this has the potential to impact upon its most vulnerable members (Unison has not however consulted with their Members employed by this Council). Unison refers to the Equalities Impact assessment produced by the Department of Work and Pension which identifies positive beneficial impacts for women and lower paid workers should they be auto enrolled (link in background papers).

HBBC has also carried out a local assessment of those staff currently not in the LGPS and have previously opted out. In order to minimise any detrimental impact the Council, working in conjunction with the Unison branch, will encourage employees to opt in to the scheme on a voluntary basis. This will be through informal and formal briefings to educate staff on the benefits of joining the LGPS.

8. RISK IMPLICATIONS

It is the Council's policy to proactively identify and manage significant risks which may prevent delivery of business objectives.

It is not possible to eliminate or manage all risks all of the time and risks will remain which have not been identified. However, it is the officer's opinion based on the information available, that the significant risks associated with this decision / project have been identified, assessed and that controls are in place to manage them effectively.

The following significant risks associated with this report / decisions were identified from this assessment:

Management of significant (Net Red) Risks		
Risk Description	Mitigating actions	Owner
If all of the staff (who are eligible), auto enrol and potentially stay in the LGPS this will have a significant impact upon budgets at a time when government funding is restricted.	By deferring until 2017 this will provide more lead time to establish adequate budget provision.	Sanjiv Kohli

9. **KNOWING YOUR COMMUNITY – EQUALITY AND RURAL IMPLICATIONS**

All eligible employees have the opportunity to join the LGPS; this is irrespective should the Council opt to defer auto enrolment.

10. **CORPORATE IMPLICATIONS**

None

Background papers: Impact Assessment DWP Workplace Pension Reforms
<http://www.dwp.gov.uk/docs/auto-enrol-european-employers-final-ia.pdf>

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