

STRONGER LEADER REPORT
19 NOVEMBER 2013

Pension Automatic Enrolment

OPEN	
SUSTAINABLE COMMUNITY STRATEGY THEME:	Stronger Communities
CORPORATE PRIORITY:	Delivering Together with Less
CABINET MEMBER:	Councillor N J Desmond
DIRECTOR:	Solicitor to the Council
CONTACT OFFICERS:	Caroline Newlands Ext 2715 caroline.newlands@wyreforestdc.gov.uk

1. PURPOSE OF REPORT

- 1.1 To outline the Council's responsibilities in relation to the provisions of the Pension Automatic Enrolment legislation.
- 1.2 To seek approval for the Council to adopt and implement the optional Transitional Delay Period for Pension Automatic Enrolment

2. RECOMMENDATIONS

- 2.2 **That the implementation of the optional Transitional Delay Period under the Pension Automatic Enrolment regulations for eligible jobholders until 1 October 2017. (Subject to the eligible jobholder(s) meeting certain conditions)**

3. BACKGROUND

- 3.1 The Pensions Act 2008 introduced reforms and legislation to review the process of Pension provision within Great Britain. The reforms are aimed at enabling and encouraging individuals to build up a private pension income to supplement the basic State Pension.
- 3.2 Under the legislation all employers will have a legal duty to automatically enrol eligible employees into a qualifying workplace pension scheme and to re-enrol any eligible employees that opt out of the pension scheme every three years. This is known as Automatic (Auto) Enrolment.
- 3.3 The implementation of Automatic Enrolment (AE) commenced in October 2012 with the largest employers first and will continue up to October 2017. Each employer is notified by the Pensions Regulator of the effective start date of their implementation (known as a 'staging date') and Wyre Forest District Council's staging date is 1 January 2014. This has been deferred to 1 April 2014 as allowed under the regulations.

3.4 Under the automatic enrolment legislation there are different categories of employees which are determined by their respective age and earnings. As part of the automatic enrolment employer duties, all employers are required to assess their workforce to determine what action needs to be taken. This will depend on the classification of the types of employees.

3.5 The Council must inform all categories of employees in writing about pension automatic enrolment and detail how they are affected by the changes. This communication must be in writing and must be specific to each individual. The information required to be provided depends on the category of employee and is detailed as follows;

- **Eligible jobholders.**

- Aged between 22 and the state pension age; **and**
- Earning over £9,440 per annum (calculated on monthly pro-rata basis)
- **Will be automatically enrolled into LGPS** at the staging date (if not already a member). If the jobholder subsequently opts out, then the Council must automatically enrol the jobholder every three years.

The Council must provide the eligible jobholder with information advising that they have been, or will be, automatically enrolled, and what this means, together with their right to opt out and their right to opt back in. The Council, as an employer, is able to let employees know that they can opt out of the scheme but is prohibited from providing the opt-out form itself (this must be obtained from the Pensions Section at Worcestershire County Council).

- **Non eligible jobholders.**

- Either:
 - a) Aged between 16 and 75; and
Earning between £5,688 and £9,440 per annum (monthly pro rata); or
 - b) Aged 16-21 or above stage pension age; and
Earning over £9,440
- **Must have option to join a qualifying scheme (will be the LGPS)**

The Council must provide information about their right to opt-in to the LGPS no later than one month after that date in which they become non-eligible jobholders

- **Entitled workers.**

- Aged between 16 and 75; **and**
- Earns less than £5,668
- **Must have option to join a scheme (will be the LGPS)**

The Council must provide information about their right to join a pension scheme no later than one month after the date in which they become an entitled worker.

3.6 Wyre Forest District Council is a Worcestershire Pension Fund Employer and as such already contractually enrolls employees into the Local Government Pension Scheme (LGPS). This is classed as a qualifying pension scheme under the

Pension Regulations. The LGPS regulations dictate that employees who meet the eligibility criteria should be contractually enrolled into the LGPS. The employees currently eligible to join the scheme are those aged 16 and over but under 75 who have a contract for 3 months or more. Employees with less than 3 month contracts are able to opt into the scheme but should not be contractually enrolled. However, under the new regulations they will be automatically enrolled where they meet the relevant earnings and age thresholds

3.7 An analysis of the Council's workforce as at 24 October 2013 details the following membership of the LGPS:

	No. of Employees
Currently members of the LGPS	275
Currently contractually opted out of the LGPS	108
Casual workers (variable workforce, not currently entitled to join the LGPS)	32

3.8 The Regulations allow the employer to make two important decisions in relation to their implementation plan. The first of these is the ability to postpone the staging date for up to 3 months. It has been determined that we use this option to delay the implementation of Auto Enrolment to 1 April 2014. This approach will ensure that we are not crossing over financial years in respect of deductions/refunds.

3.9 As part of the automatic enrolment process employers also have the opportunity to choose to apply a transitional delay period to delay automatic enrolment until 1 October 2017 for those staff falling in the category of eligible jobholder who have previously elected not to join, or have opted out of, a qualifying scheme. In considering this option it would enable us to:

- a) defer the potential financial consequences of AE onto the Council as the employer
- b) manage the administration in a more organised and planned approach

3.10 The Transitional Delay Period is dependent on the eligible jobholder meeting certain conditions and would involve issuing notice in writing of the Council's intention to defer automatic enrolment to the relevant jobholders.

3.11 An analysis has been undertaken of the potential costs that would be incurred should Wyre Forest District Council apply automatic enrolment for all existing eligible jobholders who are not currently active members of the Local Government Pension Scheme. The potential cost to the Council (based on current employee numbers) is estimated at a maximum annual cost of £120,000¹. This is in addition to any

¹ It is reasonable to anticipate that many of these eligible jobholders would choose to remain out of the scheme, and consequently opt out of automatic enrolment immediately, therefore the true costs are likely to be somewhat lower than this estimate.)

administration costs which may be significant (see financial implications 4.1). Such costs may be very difficult to fund given the current and future planned reductions in local authority funding.

- 3.12 Due regard has been given to the approach taken by other local authorities within the Worcestershire Pension Fund. Due to the funding reductions being experienced by local authorities it should be noted that Worcestershire County Council have opted to apply the Transitional Delay Period and many other local authorities within the Worcestershire Pension Fund are also applying the Transitional Delay period due to potential cost implications.
- 3.13 **It is proposed that we apply the transitional delay period in full** (i.e. to 1 October 2017) and that this and the proposal to postpone the staging date now be approved and adopted. This will however only apply to existing staff and accordance with the regulations all qualifying employees commencing their employment on or after 1 April 2014 will be auto enrolled.
- 3.14 It must be stressed that employees can in any event choose to join the pension scheme at any time and this will be reiterated in the letters sent to employees informing them of the deferment if this is approved by members.
- 3.15 The options available are to approve or otherwise the application of Transitional Delay Period to 1 October 2017.

4 RISK AND FINANCIAL IMPLICATIONS

- 4.1 It is anticipated that auto enrolment will involve a significant amount of additional work and potential cost (including software licenses) for Wyre Forest District Council (through its shared service arrangements with Bromsgrove District Council/Redditch Borough Council for provision of Payroll Services, and Worcestershire County Council for provision of Human Resources Services.) Any costs arising from the implementation of pension automatic enrolment would be charged to the Council as the employing authority.
- 4.2 In addition to the pension automatic enrolment costs, it is anticipated that the Council will incur further costs due to the proposed changes to the LGPS from 1 April 2014 as it is understood that all earnings, including overtime and additional hours will become pensionable.
- 4.3 Essentially it is necessary to consider whether the full implementation of auto enrolment at 1 April 2014 is appropriate in light of the potential financial impact at a time when the Council is facing unprecedented cuts in government funding being mindful of the views of taxpayers and employees. Equally however the primary purpose of auto enrolment must also be considered, namely to help ensure people make better financial arrangements for their retirement and avoid poverty in old age.

5 LEGAL AND POLICY IMPLICATIONS

- 5.1 The Pensions Act 2008 introduced reforms and legislation to review the process of Pension provision within Great Britain. As part of the automatic enrolment legislation, the Council has a legal duty to automatically enrol all eligible jobholders

into the Local Government Pension Scheme and to continually monitor and assess the workforce at the staging date on 1 January 2014 and then continually as new staff join the authority and existing staff change status as they may become eligible for automatic enrolment.

- 5.2 It should also be noted that the Pensions Regulator can impose penalties and fines for non-compliance with the Pension Automatic Enrolment regulations.

6 PERSONNEL IMPLICATIONS

- 6.1 The administration process involved in introducing and facilitating the scheme are substantial. Consultation is taking place with the Unions in respect of the implications of auto-enrolment

7. EQUALITY AND IMPACTS NEEDS ASSESSMENT

- 7.1 In preparing this report due regard has been had to equality of opportunity, human rights, prevention of crime and disorder, environmental, efficiency, risk management and health considerations as appropriate. Relevant officers have been consulted in relation to any legal, financial, personnel or property implications and comments received are reflected in the report.
- 7.2 The implementation of this proposal will help to support the objective of being a well run Council.

8. CONCLUSION

- 8.1 Essentially the issue is whether the implementation of auto enrolment is appropriate in light of the potential financial impact at a time when the Council is facing unprecedented cuts in government funding being mindful of the views of taxpayers and employees. Equally however the primary purpose of auto enrolment must also be considered, namely to help ensure people make better financial arrangements for their retirement and avoid poverty in old age.

9. CONSULTEES

- 9.1 CMT.

10. BACKGROUND PAPERS

- 10.1 None.