

**WIRRAL COUNCIL
CABINET
20 DECEMBER 2012**

SUBJECT:	AUTOMATIC ENROLMENT- POTENTIAL DEFERRAL OF EMPLOYER COSTS
WARDS AFFECTED:	ALL
REPORT OF:	INTERIM DIRECTOR OF FINANCE
RESPONSIBLE PORTFOLIO HOLDER:	COUNCILLOR PHIL DAVIES
KEY DECISION	NO

1.0 EXECUTIVE SUMMARY

- 1.1 This report seeks the decision of Members on the option to delay the automatic enrolment of existing eligible jobholders, into the Local Government Pension Scheme (LGPS) employed at Wirral Council, from a staging date of 1 March 2013 to 1 October 2017. Eligible job holders will still be able to enrol into the scheme in the meanwhile.

2.0 BACKGROUND AND KEY ISSUES

Auto-Enrolment Legislation

- 2.1 The Pensions Act 2008 introduced measures and the legislative framework around workplace pension reform aimed at encouraging private pension saving to avoid over reliance on the welfare state in retirement.
- 2.2 All employers must comply with the new pension duties being introduced in stages from October 2012 which require employers to assess their workforce to identify the specific status of each employee under auto enrolment legislation. Existing employees have the right to enrol at any time.

Categories of ‘Workers’

- 2.3 The legislation applies to all “Workers” who are defined as individuals that work under a written or verbal contract.

There are different categories of Worker as follows:

- Entitled Workers
- Jobholders - Eligible
- Jobholders - Non-eligible

The table below shows category of worker relative to age and earnings

Table 1: Status of workers with regard to age and earnings

Age → Earnings ↓	16-21	22- State Pension Age	State Pension Age - 74
Under lower earnings threshold (£5,564)	Entitled Worker		
Between £5,564 and £8,105	Non-eligible jobholder		
Over earnings triggers for auto enrolment (£8,105)	Non-eligible jobholder	Eligible jobholder	Non-eligible jobholder

- 2.4 Wirral Council has a staging date of 1 March 2013. All employees must be provided with information regarding the pension scheme and the impact of the legislation on their individual circumstances within two months of the staging date. Specifically, all existing eligible jobholders not contributing into a qualifying pension scheme must be enrolled and non eligible jobholders and entitled workers advised of the option to join the scheme.
- 2.5 The LGPS has been amended from 1 October 2012 in order to comply with the statutory certification requirements as a qualifying scheme.

Employer Costs.

- 2.6 Under the provisions of the LGPS all new employees with contracts of 3 months or more are contractually admitted into the scheme in accordance with the LGPS rules and not the statutory auto-enrolment procedure. Casual or temporary employees with contracts of less than three months can elect to join. All employees can opt out of membership of the scheme and thereafter will be subject to the auto-enrolment procedures and re-enrolled every three years.

The non-participation rate of the scheme relative to the workforce, who at the staging date must be either enrolled or advised of the opportunity to join the scheme, is set out below. Non-participation is at its lowest for permanent staff. There is a sharp difference between schools and non-schools Temporary staff;

Table 2: Participation in the Pension Scheme

Council	Number of Post Holders	Number of Post Holders not in Pension Scheme	Percent of post holders <u>not</u> in the Scheme %
Casuals	1385	1236	89.2
Temps	223	120	53.8
Permanent	5173	850	16.4
Total	6781	2206	32.5
Schools			
Casuals	986	971	98.5
Temps	723	638	88.2
Permanent	3550	527	14.8
Total	5259	2136	40.6

- 2.7 The employer cost to enrol individual employees into the pension scheme is determined at each triennial actuarial valuation with the current future service rate

set at 12% of pensionable earnings for the period 2011/12 to 2013/14. The estimated cost to enrol all existing eligible jobholders is detailed in section 7 of the report.

Transitional Delay

- 2.8 To manage current budgetary constraints transitional provisions under the Employer's Duties (Implementation) (Amendment) Regulation 2012 have been introduced. These provisions permit employers to delay automatically enrolling existing eligible jobholders that are not members of the pension scheme prior to the staging date. If the employer chooses to apply the delay period effectively these employees would not be automatically enrolled into the scheme until 1 October 2017 deferring the additional costs of a surge in scheme participation. However, such employees can enrol at any time. The easement of delaying auto enrolment does not apply to new appointees who commence employment after the staging date.
- 2.9 During the period of deferment of automatic enrolment, the workforce structure will be subject to considerable change in response to the lower funding for Councils. This will reduce the number who will be required to be enrolled in the LGPS in October 2017.

It should be noted that any eligible jobholder to whom the transitional delay period is applied will still have the right to opt in to the LGPS during that period.

Utilising the provision to delay, would prevent an employee suffering a deduction from pay and the need to complete forms to once again opt-out of pension savings within the LGPS.

- 2.10 To invoke this provision it is conditional that a notice is issued to the relevant jobholders by 1 April 2013 and failure to comply with this timeframe will preclude its use. However, once a notice is issued, an employer cannot automatically enrol these employees at an earlier date during the transitional period.
- 2.11 An Employer may decide not to make use of the transitional delay period to avoid further administrative complexity in adopting different process for existing and new employees. To avoid incurring financial penalties from the Pension Regulator, processes will need to be implemented, to ensure that those to whom the transitional delay period is applied are enrolled into the LGPS at the end of the period.
- 2.12 Employers may also consider taking a paternalistic approach by ensuring employees start providing for their retirement as early as possible.
- 2.13 The Fund has received clarification from the main Merseyside district councils of their intention to invoke the transitional delay period until 1 October 2017.

3.0 RELEVANT RISKS

- 3.1 There is a risk that if a timely decision is not taken on the reasonableness of invoking the transitional provisions the time constraints to notify members will remove the opportunity to utilise the provision. There is therefore the need to take a balanced view of the current budgetary constraints and the employer's responsibility

to promote scheme participation as a valuable element of the remuneration package.

3.2 The expected avoidance of costs provided in the attached appendix are based on information provided by the Fund Actuary taking account of industry wide opinion on the indicative opt out rates. There is a risk that all members who are auto-enrolled will remain in the scheme due to inertia and that the additional costs could be potentially at the highest levels quoted.

3.3 Conversely given the fact that the employees have already made the choice to opt out of the scheme it may be considered more probable for them to opt out again thereby avoiding further cost to the employer. The employer may wish to enrol all existing employees to demonstrate best practice with regard to encouraging greater personal responsibility towards pension saving.

4.0 OTHER OPTIONS CONSIDERED

4.1 No other options have been considered.

5.0 CONSULTATION

5.1 There has been no consultation undertaken or proposed for this report.

6.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

6.1 There are none arising from this report.

7.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

7.1 The deferral of costs by utilising the transitional delay period for eligible job holders is estimated in Appendix 1. It demonstrates an avoidance of cost over four years (excluding schools) of £3.171m, and for schools, £1.097m.

7.2 The cost of employees electing to enrol is shown over three scenarios in Appendix 2. the saving for non-schools would be reduced from £3.171m to

- At 15% enrolment £2.695m
- At 30% enrolment £2.220m
- At 50% enrolment £1.585m

7.3 The primary focus of the financial information is to raise awareness of the potential cost of Auto Enrolment and allow Members to consider the order of magnitude of making use of the available transitional provisions.

7.4 The Council will incur additional administration costs resulting from the necessity to communicate with all employees at the staging date providing information regarding the pension scheme and the options available.

8.0 LEGAL IMPLICATIONS

8.1 There are none arising from this report.

9.0 EQUALITIES IMPLICATIONS

- 9.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?
 (a) Is an EIA required? Yes Published

In view of the proposed policy the Council has evaluated the impact and equality of access to the LGPS for employees with any of the protected characteristics and does not consider that this action will adversely affect any group.

10.0 CARBON REDUCTION IMPLICATIONS

- 10.1 None arising from this report

11.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

- 11.1 None arising from this report

12.0 RECOMMENDATION/S

- 12.1 That Members recommend that Wirral Council invoke the transitional provisions within the Employer’s Duties (Implementation) (Amendment) Regulations 2012.

13.0 REASON/S FOR RECOMMENDATION/S

- 13.1 To manage the affordability and pressures on budgets in the current climate emerging from auto-enrolment legislation from increased employer pension costs with effect from 2013/14. It should also be noted that employees have the right to opt in to the LGPS during the period of deferment.

REPORT AUTHOR: Peter Timmins
 Director of Finance Interim
 Telephone: 0151 666 3491
 email: petertimmins@wirral.gov.uk

APPENDICES
Automatic Enrolment Cost Projection

REFERENCE MATERIAL
Public Service Pension Bill

SUBJECT HISTORY (last 3 years)

Council Meeting	Date