

# Corporate Policy and Strategy Committee

10am, Tuesday, 22 January 2013

## Pensions auto-enrolment

Item number	7.2
Report number	
Wards	

### Links

Coalition pledges	<a href="#">P27</a>
Council outcomes	<a href="#">CO26</a> , <a href="#">CO27</a>
Single Outcome Agreement	<a href="#">SO1</a>

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# Executive summary

## Pensions auto-enrolment

### Summary

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Changes to pensions legislation will impact on the terms and conditions of employment in the City of Edinburgh Council. This will result in all eligible job holders being automatically enrolled into a Pension scheme. The changes will have significant financial implications for the Council arising from:

- additional pension contributions;
- necessary systems, process and administrative changes;
- development and implementation of a communications strategy.

This report highlights the financial and resource implications and makes recommendations for implementing automatic-enrolment in the Council.

### Recommendations

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It is recommended that the Corporate Policy and Strategy Committee:

1. notes the staging date of 1 April 2013;
2. recognises the right of eligible jobholders who have already chosen to opt out, to remain opted out, by adopting the transitional period and deferring automatic enrolment until 2017;
3. notes the potential additional employers pension contribution costs, particularly if the transitional period is not adopted, estimated in this report and the additional system, administrative, communication and staff resource costs;
4. receives a further report on necessary changes to systems, policies and processes and employer pension contributions; and
5. agrees to the formation of a working group; the appointment of a project sponsor and governance arrangements; the appointment of a project manager and departmental contacts/champions; and the development of a communications strategy, to progress pensions auto-enrolment.

### Measures of success

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The measure of success will be the Council fulfilling its legal obligation to auto-enrol all eligible job holders by the staging date/s identified by Government and ensuring ongoing compliance with legislation.

### **Council adopts the transitional period**

Given the inherent uncertainty around the number of employees who will remain in pension scheme membership after application of auto-enrolment, it is prudent to model a range of scenarios. A key determinant of the additional budget requirement in 2013/14 will, however, be the Council's decision whether to adopt the transitional period.

If this period is adopted, the majority of any potential additional liability arising from an increase in scheme membership would be deferred until 2017/18. Eligible new employees would automatically be enrolled but with the option for any existing member of staff to join the scheme voluntarily at any time retained. This mirrors current arrangements and would not therefore be expected to give rise to an additional liability other than where employees are automatically re-enrolled after a period of ineligibility.

The Long-Term Financial Plan (LTFP) currently includes provision of £1.175million in 2013/14 in recognition of additional employer pension contributions following introduction of auto-enrolment in April 2013.

While adoption of the transitional period is expected to limit the additional cost implications at this time, it is recommended that an element of provision sufficient to fund a net increase in membership equal to 5% of eligible employees (estimated to be some £0.27million) be retained in 2013/14, with the remaining existing provision of £0.91million then deferred until 2017/18. The appropriateness and level of provision for 2014/15 and future years will be reviewed as evidence of changes in overall scheme membership following implementation emerges.

### **Administrative Requirement**

Pension auto-enrolment will involve significant additional ongoing administrative support, which has been estimated at 1-2 FTE. The cost of this ongoing administrative support is contained in the level of provision for 2013/14 outlined above.

Subject to Committee approval, the level of provision for auto-enrolment included in the LTFP will be rephased accordingly.

## Council does not adopt the transitional period

Should the Council opt not to adopt the transitional period, the potential liability in 2013/14 is correspondingly increased by automatically re-enrolling existing staff, even if they have previously chosen to opt out. The table below illustrates the estimated cost implications at this time. The existing level of provision within the LTFP for 2013/14 equates to around 22% of take-up amongst the eligible staff group, a level considered prudent relative to that made in comparable organisations.

<b>Additional Employer Costs per annum, for % of staff not currently in membership of the pension scheme who remain in scheme following auto-enrolment (assuming transitional period not adopted)</b>		
<b>10% of eligible staff</b>	<b>25% of eligible staff</b>	<b>100% of eligible staff</b>
£0.54 million	£1.35 million	£5.4 million

## Equalities impact

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The changes to the Local Government pension scheme ensure that casual and short-term workers, who are predominantly lower paid and female workers, have access to an occupational pension.

## Sustainability impact

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There is no known environmental impact following this report.

## Consultation and engagement

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None at this time.

## Background reading / external references

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A number of appendices support this report.

- Categories of workers
- Preparing for pensions auto-enrolment - seven steps
- Workforce analysis - potential impact of auto-enrolment

## Pensions auto-enrolment

### 1. Background

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- 1.1 The Government is concerned that many people will have insufficient income to support their retirement. Pensions auto-enrolment is intended to encourage more people to save into a pension scheme to provide for their retirement.
- 1.2 Changes to the pension legislation means that all 'eligible' jobholders (see appendix 1 Categories of Workers) will need to be automatically enrolled into an appropriate pension scheme. Failure to comply with Pensions auto-enrolment regulations will result in significant fines being applied to the Council.

### 2. Main report

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#### Scope

- 2.1 Currently, all Local Government employees with a contract of greater than three months automatically join the Council's occupational pension scheme, the Lothian Pension Fund (LPF). The Local Government Pension Scheme regulations in Scotland have still to be amended to allow all employees to be able to join LPF. However, this is expected to be completed in the next few months. Teachers automatically join the Scottish Teachers' Superannuation Scheme (STSS).
- 2.2 As at August 2012, 6,251 employees (29% of all staff on the payroll) are not members of a pension scheme. The number of staff who will meet the eligibility criteria to be enrolled is 2,331.
- 2.3 The Council provides payroll services to a number of external bodies, which will be affected by Pensions auto-enrolment. Subsequently, this will create additional pressures for the Council.

#### Preparing for Auto-enrolment

- 2.4 The Pensions Regulator has identified a number of steps to preparing for Pension auto-enrolment. The main steps are listed below with additional information and detail contained in Appendix 2.

- a) **Staging Date**

This is a date allocated by Government for implementing auto-enrolment and is based on the number of workers in the employer's PAYE scheme as at 1 April 2012. The Council's go-live date is **1 April 2013**.

b) **Review Pension arrangements**

For a **transitional period**, automatic enrolment can be deferred for eligible jobholders who have opted-out. The transitional period applies up to 2017.

It is proposed that the transitional period should be adopted.

All eligible job holders will be advised of their right to join the pension scheme. Those who decide to opt-out will be given the opportunity to reconsider their decision if their circumstances change at any time.

A decision is required to confirm that the Council wishes to utilise the transitional period.

c) **Communicate with workforce**

There is a requirement to write to all workers (except those aged under 16, or 75 and over) explaining what automatic enrolment involves. This includes communicating with current scheme members. The deadline for this communication is one month after the staging date for those previously not in a scheme and two months for scheme members.

d) **Auto-enrol**

Assessment dates for enrolment for non-pension scheme members are:

- At the staging date
- On the first day of employment
- On a worker's 22<sup>nd</sup> birthday
- At the date after the transitional period ends (2017)
- Each pay period for non-eligible worker or entitled worker

Within one month of the enrolment date, we must provide the pension fund with member information (current practice) and the eligible jobholder with enrolment information.

An eligible jobholder (once enrolled and in receipt of information from the employer) can decide to opt-out of a pension scheme but they cannot opt-out of auto-enrolment.

Eligible jobholders who choose to opt out must be re-enrolled every three years. This is to ensure that eligible jobholders who have opted out are forced to reconsider the decision on a regular basis.

Some employees are likely to fluctuate between being an eligible jobholder and non-eligible or entitled worker. This could happen for various reasons including sick pay, overtime payments, changes to contractual terms and supply working.

e) **Administrative Requirement**

When an employee moves between the categories, the Council must write to them and each time they become eligible we must auto-enrol them again. This will create an additional administrative requirement for the Council, estimated at 1-2 FTE. In addition, there is an obligation to maintain accurate records to demonstrate compliance and protect the Council against any future claims from staff who have opted out of the pension scheme.

The costs associated with the administrative requirements are contained in the provision outlined in the Financial Impact section.

f) **Contributions**

The LPF and the STSS are Defined Benefit schemes which the employer contributes to, with the current level of contributions being in excess of the minimum requirements.

Employer pension contributions will have to be paid for those employees who do not opt out of the scheme after being auto-enrolled. Analysis of the workforce is attached as Appendix 3, which identifies the potential number of employees who could join the pension scheme.

### **Implementation**

- 2.5 Pensions auto-enrolment will have a Council-wide impact and will require a working group to be set up. The working group should include a project sponsor and governance arrangements, a project manager, workstream leads and departmental representation. It is anticipated that input will be required from the following areas, but this list is not exhaustive.
- HR & Payroll Service Centre (including Recruitment)
  - Employee Relations
  - Remuneration
  - HR Business Partner Teams
  - Finance
  - Communications
  - Departmental Contacts/Champions
- 2.6 A number of key activities, which will involve changes to systems, policies and processes, will need to be undertaken to implement auto-enrolment. This is a significant development involving resource intensive activities. These activities will be identified, planned and delivered through the working group.
- 2.7 Additional provision of £1.175million for the estimated financial impact of auto-enrolment is included within the Council's LTFP with effect from 2013/14. On the basis of available information, this is considered a prudent estimate of total potential liabilities at this stage. Should Committee approve adoption of the

transitional period, the existing provision within the LTFP will be rephased accordingly.

### 3. Recommendations

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- 3.1 It is recommended that Corporate Policy and Strategy Committee:
- 3.1.1 notes the staging date of 1 April 2013;
  - 3.1.2 recognises the right of eligible jobholders who have already chosen to opt out, to remain opted out, by adopting the transitional period and deferring automatic enrolment until 2017;
  - 3.1.3 notes the potential additional employers pension contribution costs, particularly if the transitional period is not adopted, estimated in this report and the additional system, administrative, communication and staff resource costs;
  - 3.1.4 receives a further report on necessary changes to systems, policies and processes and employer pension contributions; and
  - 3.1.5 agrees to the formation of a working group; the appointment of a project sponsor and governance arrangements; the appointment of a project manager and departmental contacts/champions; and the development of a communications strategy, to progress pensions auto-enrolment.

**Alastair D Maclean**

Director of Corporate Governance

### Links

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<b>Coalition pledges</b>	<b>P27</b> – Seek to work in full partnership with staff and their representatives
<b>Council outcomes</b>	<b>CO26</b> - The Council engages with stakeholders and works in partnership to improve services and deliver on agreed objectives <b>CO27</b> - The Council supports, invests in and develops our people
<b>Single Outcome Agreement</b>	<b>SO1</b> - Edinburgh's Economy Delivers increased investment, jobs and opportunities for all
<b>Appendices</b>	<b>Appendix 1</b> - Categories of workers <b>Appendix 2</b> - Preparing for pensions auto-enrolment - seven steps <b>Appendix 3</b> - Workforce analysis - potential impact of auto-enrolment



<b>Pensions Auto-enrolment</b>	
Summary of the different categories of worker	
<b>Category of Worker</b>	<b>Description of worker</b>
<b>Worker</b>	<ul style="list-style-type: none"> <li>• An employee</li> <li>or</li> <li>• Someone who has a contract to perform work or services personally, that is not undertaking the work as part of their own business.</li> </ul>
<b>Jobholder</b>	A worker who: <ul style="list-style-type: none"> <li>• is aged between 16 and 74</li> <li>• is working or ordinarily works in the UK under their contract</li> <li>• has qualifying earnings.</li> </ul>
<b>Eligible jobholder</b>	A jobholder who: <ul style="list-style-type: none"> <li>• is aged between 22 and state pension age</li> <li>• has qualifying earnings above the earnings trigger for automatic enrolment.</li> </ul>
<b>Non-eligible jobholder</b>	A jobholder who: <ul style="list-style-type: none"> <li>• is aged between 16 and 21 or state pension age and 74</li> <li>• has qualifying earnings above the earnings trigger for automatic enrolment</li> </ul> or <ul style="list-style-type: none"> <li>• is aged between 16 and 74</li> <li>has qualifying earnings below the earnings trigger for automatic enrolment.</li> </ul>
<b>Entitled worker</b>	A worker who: <ul style="list-style-type: none"> <li>• is aged between 16 and 74</li> <li>• is working or ordinarily works in the UK under their contract</li> <li>• does not have qualifying earnings.</li> </ul>

Qualifying Earnings	Age 16 – 22	22 – State Pension Age	State Pension Age – 75
Under the lower limit of the qualifying earnings band	Entitled Worker		
Between the lower limit of the qualifying earnings band and the “earnings trigger”	Non-Eligible Jobholder		
Over the earnings trigger	Non-Eligible Jobholder	Eligible Jobholder	Non-Eligible Jobholder

### Preparing for Auto-enrolment Details

#### Preparing for Auto-enrolment

The Pensions Regulator has identified seven steps to preparing for Pensions auto-enrolment. The seven steps are:

1. **Know the staging date.**

This is a date allocated by Government for implementing auto-enrolment and is based on the number of workers in the employer's PAYE scheme as at 1 April 2012. The Councils go-live date is **1 April 2013**.

External customers, eg Lothian and Borders Fire and Rescue Services (LBFRS), will have their own staging date, which will be after the Council implementation.

2. **Assess the workforce.**

The workforce has to be assessed against a set of criteria to determine which category individuals fall into. Categorisation will determine what auto-enrolment action needs to be taken for individuals.

Identifying the appropriate category, ie eligible job holders, non-eligible job holders or entitled workers, will not always be straightforward, particularly in relation to casual/supply staff where earnings will not be known until the payroll has been processed.

3. **Review Pension arrangements**

Lothian Pension Fund (LPF) and Scottish Teachers' Superannuation Scheme (STSS) schemes are both Defined Benefits schemes registered by HMRC.

The Local Government Pension Scheme regulations in Scotland have still to be amended to allow all employees to be able to join LPF. However, this is expected to be completed in the next few months. Teachers automatically join the Scottish Teachers' Superannuation Scheme (STSS).

The transitional period is optional and does not stop employees joining the scheme, but avoids the need for the Council to monitor eligible job holders for inclusion in the first three year review. A decision is required to confirm if the Council wishes to utilise this option.

4. **Communication**

There are different information requirements for each category of worker. Sample templates are available from Pension Regulator website.

The recent changes in the scheme rules will bring their own confusion. New LGPS regulations will open up the scheme to all employees regardless of pensions auto-enrolment. This will include staff who will not meet the 'eligible jobholder' criteria. Therefore for those under 22, or below the earnings trigger, the communications will be conflicting.

5. **Auto-enrol**

An eligible jobholder (once enrolled and in receipt of information from the employer) can decide to opt-out of a pension scheme but they cannot opt-out of auto-enrolment.

As an employer, we cannot provide jobholders with an opt-out form or promote this. We can provide directions on where to find information about pensions and savings for retirement. Opt-out information can be held on the LPF/STSS website but not on the Council's website.

6. **Register**

We are required to register with The Pension Regulator shortly after our staging date. Registration is a straightforward online process that must be completed by July 2013.

7. **Contributions**

Based on 10% of auto-enrolled staff remaining in the scheme, the additional cost in employer's pension contribution would be £540,000 (per annum). This is based on the assumption that a large proportion of auto-enrolled staff opt out of the scheme at the first opportunity. If this is not the case, the cost to the Council would rise in direct proportion.

Analysis of workforce not currently in a pension scheme

Number of employees by category:

Qualifying Earnings	Age 16 - 22	22 – State Pension Age	State Pension Age - 75
Below lower limit (up to £6,055)	Entitled Worker = 3,391		
Between lower limit and earnings trigger (£6,055 - £8,105)	Non-Eligible Jobholder = 466		
Over earnings trigger (£8,105+)	Non-Eligible Jobholder = 24	<b>Eligible Jobholder = 2,331</b>	Non-Eligible Jobholder = 30

Analysis of Eligible Jobholders by Department:

Department	Number of Employees
City Development	6
Corporate Governance	132
Children & Families	836
Health & Social Care	493
Service for Communities	849
Others (fees payroll)	15
<b>Total</b>	<b>2,331</b>