

NORTH LINCOLNSHIRE COUNCIL

**POLICY AND RESOURCES CABINET
MEMBER**

PENSION AUTO ENROLMENT

1. OBJECT AND KEY POINTS IN THIS REPORT

- 1.1 To inform the cabinet member of the potential implications of the introduction of pension auto enrolment
- 1.2 To outline the stages of auto enrolment.
- 1.3 To consider the financial and administrative implications of the duties set out in the Pensions Act 2008 and to propose how the council should meet them.

2. BACKGROUND INFORMATION

- 2.1 New legal duties have been placed upon the authority by the Pensions Regulator for the UK, which require workers who are not already in a pension scheme to be auto-enrolled in line with the duties set out in the Pensions Act 2008. This requirement applies to all employers.

There are 7 steps for employers to take to prepare for the auto enrolment process:

- i. Know your staging date – when to act
 - ii. Assess your workforce
 - iii. Choose a pension scheme for automatic enrolment
 - iv. Communicate the changes to all your eligible workers
 - v. Automatically enrol your eligible workers
 - vi. Register with the Pensions Regulator
 - vii. Contribute to your workers' pensions.
- 2.2 Depending on the size of the PAYE scheme, each organisation is given its own start staging date. The staging date for North Lincolnshire

Council has been confirmed by the Pensions Regulator as 1 April 2013.

2.3 The workforce has to be assessed in order to categorise each worker as an eligible jobholder, non eligible jobholder or entitled worker.

- Eligible jobholders are workers between the age of 22 and the state pension age, who earn over £8,105. These workers must be **auto-enrolled** in a pension scheme. We had 4,490 eligible jobholders at 1 April 2012. Most of these are already enrolled in the Local Government Pension Scheme (LGPS).
- Non eligible jobholders are workers earning between £5,564 and £8,105, or earning over £8,105 but between the ages of 16 and 21, or over the state pension age but under age 75. These have the **right to opt in** to a qualifying pension scheme under auto enrolment. We had 640 non eligible jobholders at 1 April 2012.
- Entitled workers are workers below the lower earnings threshold of £5,564. These have the **right to opt in** to a pension scheme on request and the Council should provide the necessary information to the entitled workers under auto enrolment. We had 888 entitled workers at 1 April 2012.
- An office-holder is not classified as a worker, e.g. elected Members.

2.4 Different rules apply to new starters than to existing employees. Auto-enrolment for new workers must start from 1 April 2013, with an option to defer for up to three months to 1 July 2013. As an indication of the potential annual number there were 241 new starters within the council in 2011/12, but a proportion will already be LGPS members. For existing workers, the council can choose to delay auto-enrolment for up to 4 years until 1 October 2017, as allowed by section 3 of the Pensions Act 2008. This does not affect their rights to opt in.

2.5 Some of these workers are casual workers and were previously excluded from joining the LGPS as the regulations required an employee to hold a contract of employment of 3 months or more before they were eligible to join. This would have meant that casual employees above the thresholds would not have been eligible for LGPS. This requirement has now been changed from 1 October 2012

to enable councils to offer the same pension scheme to casual as to permanent employees.

- 2.6 The pension regulations allow the council to choose the pension scheme for auto enrolment. The most obvious choice is the LGPS which is specifically designed for the local government workforce. An alternative scheme such as NEST (National Employment Savings Trust) is offered as a default scheme where employers do not have arrangements in place. Employees are currently offered either the Local Government Pension Scheme (LGPS) provided by the East Riding Pension Fund or the Teachers Pension Scheme (TPS) as appropriate. It is the responsibility of the council to ensure that the scheme chosen meets the criteria to be an automatic enrolment scheme. The LGPS meets these criteria.
- 2.7 One of the employer duties is to provide pension information to workers irrespective of the category into which they fall (eligible jobholder, non eligible jobholder or entitled worker). The deadline in most circumstances is one month after the staging date, although for eligible jobholders already in the pension scheme the deadline is two months after the staging date.
- 2.8 Once auto-enrolment has commenced, there will be a requirement to continually monitor the workforce to establish eligibility on each pay cycle to ensure that employees who qualify are auto enrolled into the pension scheme.

Currently there is no monitoring facility in either the Human Resources PP system or Payroll system (a module of East Riding of Yorkshire Council's IPP system) to facilitate this requirement and to do so would require the software to be enhanced or developed. As monitoring is based on age and earnings, an enhancement of the Payroll system is most suitable.

East Riding of Yorkshire Council (ERYC) has advised that the IPP system is being enhanced to provide monitoring of auto-enrolment. However investigation is necessary to ensure the development is suitable for our purposes as it may be part of the IPP HR module and not the payroll module.

2.9 Employers must register with The Pensions Regulator to confirm compliance and the deadline for registration is four months after the staging date.

3. OPTIONS FOR CONSIDERATION

3.1 Auto enrolment is mandatory but there are still options for consideration

- Auto enrolment for new workers must be completed after 1 April 2013, but there is an option to defer for up to three months.
- For existing workers the council can choose to delay enrolment by four years until 1 October 2017. There are currently circa 688 existing employees who are not in a pension scheme.
- LGPS has been amended to be auto enrolment compliant but the council could opt to use an alternative scheme such as NEST (National Employment Savings Trust) which is a provider available to all employers and has been designed to complement existing provision and also has a Public Service obligation.

4. ANALYSIS OF OPTIONS

4.1 The potential uptake under auto enrolment is difficult to predict precisely. Whilst in the longer term an increasing number of employees is likely to opt to join a pension scheme, in the short term, economic pressures would be expected to significantly reduce initial uptake, particularly with casual and part time employees on lower incomes.

In October 2011, payroll contacted all existing employees who would be categorised as eligible job holders not currently in the pension scheme. At this time, of the 712, only 24 (3.3%) opted to join the pension scheme, leaving 688 not currently in a pension scheme.

In order to provide an indication of potential costs, payroll have undertaken an impact assessment based on 2011/12 payroll costs. By its nature, it can only be viewed as indicative but it does provide a view to be formed on the longer term impact.

The assessment measured the increase to total Council pension contributions if all pensionable earnings, excluding teachers, were subject to employer pension contributions, allowing for the impact of lower national insurance contributions that are payable where an employee is a member of the Local Government Pension Scheme (LGPS). This indicates a potential maximum additional cost of circa £1.25m but the cost is likely to be significantly lower for the reasons outlined above.

Whilst the initial cost of auto enrolment is expected to be low it does represent a potential financial risk, which could be reduced by deferral. For this reason, it is proposed to defer auto-enrolment of existing employees until 1 October 2017. These employees would still have the option to join during this period.

- 4.2 The council could choose to utilise an alternative scheme alongside the LGPS, e.g. NEST. However, this default scheme has primarily been established for employers who do not currently offer a pension scheme. Offering two schemes could potentially destabilise the LGPS, if employees were to migrate to a NEST scheme which offered a smaller employee contribution rate. This in turn would jeopardise the longer term viability of the ERPF pension fund and for this reason it is not recommended.
- 4.3 Until software developments are in place, operating the scheme would require manual administration. Therefore, to delay the initial staging requirement from 1 April 2013 by three months would be a sensible course of action.

5. RESOURCE IMPLICATIONS (FINANCIAL, STAFFING, PROPERTY, IT)

- 5.1 The requirements for auto-enrolment with regard to communication with workers can be met from existing budgets.
- 5.2 The process for automatic enrolment and workforce monitoring can be met from existing budgets. However there may be development costs for software monitoring programs (Payroll), or additional manual effort if software changes cannot be made in time.
- 5.3 Evidence from the Pensions industry indicates that auto-enrolment leads to a higher proportion of workers joining a pension scheme. The maximum potential financial implication of £1.25m is outlined in 4.1

above. The council will need to factor future costs into its budget forward planning process once more statistical information is available.

6. OTHER IMPLICATIONS (STATUTORY, ENVIRONMENTAL, DIVERSITY, SECTION 17 - CRIME AND DISORDER, RISK AND OTHER)

- 6.1 Compliance with the requirements of auto-enrolment is a statutory duty under the Pensions Act 2008.
- 6.2 There are no environmental, diversity, crime & disorder, risk or other implications.

7. OUTCOMES OF CONSULTATION

- 7.1 No consultation undertaken at this stage.

8. RECOMMENDATIONS

- 8.1 That the LGPS be nominated as the council's chosen pension scheme for auto enrolment.
- 8.2 Auto enrolment for new workers to commence from 1 July 2013 as permitted under the staging rules.
- 8.3 Compulsory auto enrolment for existing employees to commence from 1 October 2017.
- 8.4 Dialogue with ERYC to commence immediately to ensure payroll monitoring software will be suitable for the processes to be implemented.

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Background Papers used in the preparation of this report: None