



London Borough of Hammersmith & Fulham

CABINET

4 MARCH 2013

PENSIONS AUTO ENROLMENT

Report of the Leader of the Council – Councillor Nicholas Botterill

Open Report

Classification - For Decision

Key Decision : Yes

Wards Affected: None

Accountable Executive Director: Jane West , Executive Director of Finance and Corporate Governance

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1. EXECUTIVE SUMMARY

- 1.1 The Pensions Act 2008 requires all employers to provide a workplace pension scheme for employees called **Auto enrolment**. The proposed implementation date is based on the number of employees. LBHF should therefore implement auto enrolment in May 2013 but there is an option for employers to use the transitional delay period until October 2017.
- 1.2 By using the transitional delay period there is potential for a considerable saving in employer's pension contributions as detailed below.

2. RECOMMENDATIONS

- 2.1 That, in view of the considerable projected savings of employer pension contributions, Hammersmith & Fulham Council defer introduction of pensions auto enrolment until October 2017.

3. REASONS FOR DECISION

- 3.1 Based on estimates of number of staff who would remain in pension scheme if auto enrolled in May 2013, there is a potential saving in employer pension contributions of approximately £9 million over 4 years if auto enrolment is deferred to October 2017. Legislation allows employers to exercise this option without giving any reasons providing the Pensions Regulator is notified of the decision within one month of staging date which for LBHF is 1 May 2013.

4. INTRODUCTION AND BACKGROUND

- 4.1 Auto-enrolment means employees being automatically enrolled into their employer's qualifying workplace pension scheme without any active decision on their part. At present, many employees do not apply to join their employer's scheme or, as LBHF automatically enrol new starters subsequently elect to opt out. Auto-enrolment is intended to encourage more employees to join an occupational pension scheme. For local authorities the LGPS and Teachers (TPS) schemes can be used for auto enrolment, see below.
- 4.2 The LGPS and the Teachers scheme will be used as the auto-enrolment schemes. There is no statutory obligation to use any other new scheme as an auto enrolment scheme.
- 4.3 Employees that will have to be auto-enrolled are those who are at least 22 years old, have not reached state retirement age and whose earnings are more than the annualised equivalent of £9,440. These are known as eligible job holders
- 4.4 Staff who are under age 22 or are over state retirement age or whose earnings are more than the full time equivalent of £5,668 but less than £9,440 will not have to be auto enrolled but may choose to join their workplace pension scheme. These are known as non-eligible job holders.
- 4.5 It should be noted that the earnings of any employee who has more than one job with the same employer on separate contracts of employment are assessed separately rather than aggregated, this will be a major issue with schools staff, many of whom have 2, 3 or even 4 separate posts.

5. PROPOSAL AND ISSUES

- 5.1 The auto enrolment scheme requires the employer to enrol everybody automatically; however, the employee does have the right to opt back out of the scheme.

- 5.2 For LBHF, currently the number of eligible job holders who will have to be auto-enrolled into a workplace pension scheme is 530; additionally there are also 137 non eligible job holders who may choose to join. Of the 530 eligible job holders 66 would join the Teachers' Pension scheme as their qualifying workplace pension scheme and 464 would join the LGPS.
- 5.3 Based on earnings received in the 2011/12 tax year the estimated cost of admitting these 530 eligible job holders into their qualifying workplace pension scheme is as follows:

	Number of employees	Cost of employer pension contributions
LGPS	464	£ 2,387,064 pa
Teachers' pension scheme	66	£ 503,279 pa
	<u>530</u>	<u>£ 2,890,343 pa</u>

This is based on a full year of employer contributions and makes no allowance for opt-out rates which may be high given that the majority of these employees have already previously opted out of the LGPS or Teachers Pension scheme.

Estimates of opt out rates vary between 20% and 40%, taking a mid-point of 30% the number of eligible employees to be enrolled, and employer cost for 2013/14, would reduce to 370 and £2,023,240 respectively. Estimated employer saving if auto enrolment deferred to October 2017 is approximately £9 million between May 2013 and September 2017.

- 5.4 A survey by Waltham Forest show that, excluding LBHF and RBKC, 5 other London Boroughs intend to defer auto enrolment to 2017 and 13 will begin in 2013. No response was received from the other boroughs.

6. OPTIONS AND ANALYSIS OF OPTIONS

- 6.1 There is an option for employers to use the transitional delay period, without giving a reason, until October 2017. As stated above there are considerable financial benefits by doing so. This does not mean however that there are no changes or additional work for employers, until that time. There will still be a considerable amount of work, both at original staging date and on-going.

If the transitional delay period is used LBHF will, at 1 May 2013, still have to

- May 2013 – notify individually all existing eligible job holders, non-scheme members, in writing that the transitional delay period is being used. This has to be done using a standard letter provided by Pensions Regulator.
- On-going from May 2013 any new eligible job holders will have to be placed in the LGPS or Teachers scheme, although this is the default at present for most new employees it will now extend to previously excluded groups such as those with contracts of less than 3 months, casuals, and staff who have previously opted out but take on an additional separate role, see 3 above re schools staff who often switch posts.
- For those in paragraph above who then elect to opt out confirmation will have to be sent to them and a record has to be kept that they will again be auto enrolled in a further 3 years time.
- Staff excluded from auto enrolment at May 2013 will have to be monitored to see if they become eligible at a future date, regardless of deferment to 2017, this includes employees reaching age of 22 or whose earnings in post exceed minimum earnings trigger, currently £9440 pa, (this could be because of increase in hours or job regrading). Reports will have to be run monthly to produce this data,

6.2 As detailed above the option to defer auto enrolment will generate considerable financial savings for the borough with no detrimental effect for employees. Those not currently members of a pension scheme will have previously exercised their option to opt out of our schemes. To implement in May 2013 would impact greatly on budgets for 2013/14 and future years.

7. CONSULTATION

7.1 Staff will be informed in May 2013 that the Council does not intend to implement auto enrolment until 2017. If a member of staff would like to choose to opt back into the LGPS immediately, there are able to do so. They can opt back in voluntarily at any time.

8. QUALITY IMPLICATIONS

8.1 There will be neutral equality impact as it does not affect an individual employee's right to join or opt out of the pension scheme.

- 8.2 Implications verified/completed by: Lillian Magero, HR Equalities Consultant, 0020 8753 2355.

9. LEGAL IMPLICATIONS

- 9.1 The new regulations require individual written targeted communications about the legislative changes to all staff whether they have opted into the LGPS or TPS or not at specified dates - e-links and notice board alerts are not acceptable. The time frame for initial communication must be no later than 1 month after the staging date. As the Council is required to notify all eligible job holders of the decision to defer automatic enrolment at the same time as reminding them that they could still choose to opt to join the LGPS or TPS at any time having previously chosen otherwise, there does not appear to be any disadvantage for employees by using the transitional period in this way. Staff not currently in either scheme may chose to opt in at any time and as this choice still remains, they are not losing out nor are they being disadvantaged.

10. FINANCIAL AND RESOURCES IMPLICATIONS

- 10.1 Implementation of auto enrolment will result in additional employer costs, approximately £9 million over 4 years. Proposed deferment will assist in keeping expenditure within current budgets.
- 10.2 Implications verified/completed by: Andrew Lord Head of Strategic Planning and Monitoring 020 8753 2531

11. RISK MANAGEMENT

- 11.1 The risks associated with the decision to defer have been considered by the Payroll and Pensions section and are included in the body of the report. Benefits to the Council include a significant saving as identified in 3.1 of the report of £9m over four years which contributes to the Enterprise Wide Risk Register entry 1, Managing Budgets.
- 11.2 Implications verified/completed by: Michael Sloniowski Head of Risk Management 020 8753 2587

12. PROCUREMENT AND IT STRATEGY IMPLICATIONS

- 12.1 No procurement or IT implications
- 12.2 Implications verified/completed by: Mark Cottis E-procurement consultant 020 8753 2757

LOCAL GOVERNMENT ACT 2000
LIST OF BACKGROUND PAPERS

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
1.	Pensions Act 2008 (published)	Eric Kersey, Head of Payroll & Pensions	Finance and Corporate Services Department
CONTACT OFFICER:		NAME: Eric Kersey EXT. 1885	