

## *Part A*

**Report to:** Functions Committee  
**Date of meeting:** 23 July 2013  
**Report of:** Head of Human Resources  
**Title:** Pensions Automatic Enrolment

### 1.0 **SUMMARY**

1.1 The objectives of the report are to familiarise Functions Committee with Pensions Automatic Enrolment and the implications for Watford Borough Council; and

### 2.0 **RECOMMENDATIONS**

2.1 To recommend that (a) transitional delay and (b) postponement are adopted by the Council.

#### **Contact Officer:**

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**Report approved by:** Cathy Watson, Head of Human Resources.

### 3.0 **DETAILED PROPOSAL**

#### 3.1 **Background**

3.1.1 As part of a Government response to reports indicating both that longevity has increased, and that many individuals are making no provision for their retirement other than relying on basic State pension provision, the Pension Act 2008/2011 compels all UK employers with more than 50 employees to automatically enrol employees defined as 'eligible job holders' into a qualifying pension scheme.

3.1.2 An 'eligible job holder' is defined as an employee who is 22 or over but under 75, and who earns over £9440 (the current tax free allowance, and therefore subject to change) per annum.

3.1.3 This is being done on a staged basis, dependent on the numbers of employees in each organisation. The staging date for Watford Borough Council is **1 January 2014**.

#### 3.2. **Details**

3.2.1 The Local Government Pension Scheme is classified as a qualifying pension scheme and under its existing regulations, any new joiners should already be automatically enrolled into the scheme, although they are currently given the option to 'opt out'

before they are formally enrolled.

- 3.2.2 A high number of employees are already members, with **230 employees** (approximately 82% of staff) projected to be in the scheme at the staging date of 1 January 2014. There are projected to be **50 non members** at the same date.
- 3.2.3 Under the new automatic enrolment process, employees will not be able to 'opt out' until after they have formally entered the scheme.
- 3.3 **Transitional Delay**
- 3.3.1 Transitional delay is a facility whereby it is possible to defer auto enrolment for existing employees (who have already opted out of the LGPS) until **30 September 2017**.
- 3.3.2 Any new starters (and existing job holders who become 'eligible job holders' for the first time) must still be auto enrolled and the scheme is still open for all employees to join themselves at any time.
- 3.3.3 Hertfordshire County Council and many local authorities have opted for transitional delay.
- 3.3.4 There are significant financial implications associated with the decision to use transitional delay – as detailed in section 00000. On the basis of these, it is recommended that transitional delay is adopted by the Council.
- 3.4 **Postponement (for individual employees)**
- 3.4.1 There is also an option to postpone auto enrolment for employees on casual or seasonal contracts for **up to 3 months** from their start date.
- 3.4.2 It is recommended that this facility is adopted, as it would enable the earnings of casual staff to be fully assessed to see if they meet the 'eligible job holder' criteria before enrolling them.
- 3.4.3 This would reduce both direct employer pension costs and administrative costs.
- 3.5 **Main duties**
- 3.5.1 The London Pensions Fund Authority (LPFA), which administers the LGPS on behalf of Hertfordshire County Council, has issued detailed auto enrolment programme guidance and draft documentation for the Hertfordshire councils. It will provide advice and guidance throughout the programme.
- 3.5.2 The main duties for the council are as follows:
- The Council must notify all its employees of the staging date approximately 6 months before the date (a general notice on the Intranet/notice-boards will be sufficient)
  - The Council must inform all directly affected members (those being enrolled, and if transitional delay is being used – those for whom transitional arrangements are being invoked).

- One month before the staging date, the Council must identify all employees who are 'eligible job holders'
- From 1 January 2014 the Council must automatically enrol all 'eligible job holders' into the Scheme, except those for whom transitional delay has been invoked (and these individuals must be written to and again offered the opportunity to join the Scheme). The Council must, every three years, automatically re-enrol those who choose to opt out.
- The Council is not permitted, either on or before the staging date, to inform staff who are to be auto enrolled that they can opt out of the Scheme if they wish.
- Staff who are automatically enrolled and then wish to opt out must apply directly to the Pensions Fund *Administering Authority* (Hertfordshire County Council), not the *Employing Authority* (Watford Borough Council).
- As noted above, any staff who opt out of the pension scheme after auto enrolment must be automatically re-enrolled after 3 years.
- The council must provide information to eligible and non-eligible jobholders about auto enrolment and pensions. Under existing LGPS regulations all staff under 75 who are not 'eligible job holders' retain the right to join the LGPS.
- After the staging date, the Council must keep accurate records and continue to monitor worker's age, employment/contractual status and earnings and automatically enrol them in the LGPS if they become 'eligible job holders'.
- The Council must prevent unfair treatment of workers on grounds related to the employer duties (e.g. inducing a candidate during recruitment to opt out of the pension scheme or assessing a candidate during recruitment regarding their potential pension scheme membership).
- The Council must inform the Pensions Regulator within 3 months of the staging date that the council has complied with its duties, or that it has applied the transitional delay and/or postponement option.

## 4.0 IMPLICATIONS

### 4.1 Financial

- 4.1.1 The introduction of Pensions Automatic Enrolment will have financial implications. When an employee is enrolled into the Local Government Pension Scheme the employer pays the associated employer contribution rate to the Scheme. For WBC this is currently 26.8%
- 4.1.2 This will be offset marginally by a reduction in employer National Insurance contributions of approximately 3.4% as employees move from being 'contracted-in' to the State pension scheme to being 'contracted-out' i.e. members of the LGPS as an occupational scheme. However, if the proposed Single Tier State pension is introduced in 2017, this reduction will cease.
- 4.1.3 If the transitional delay option is not used and the existing 50 staff who are non members are automatically enrolled on 1 January 2014 (on the basis of an average salary of £27,195) the additional maximum potential employer contribution (at 26.8%) would be approximately **£364,413 per annum**. This is a 'worst case' scenario.
- 4.1.4 Research indicates that approximately 30% of staff auto enrolled into pension schemes will opt out. In local government this figure is likely to be higher as the sector already runs a type of auto enrolment scheme, and additional deductions from pay

may not be seen as good value by casual and part time employees on lower incomes. Some predictions have indicated that up to 90% of auto enrolled staff will opt out of the LGPS. The financial cost of this 'best case' scenario would be £36,441 per annum.

4.1.5 Pensions auto enrolment is intended to increase the number of individuals contributing to pension schemes, and would therefore increase employer contribution costs. However, it is possible that raising awareness of occupational provision may have an unintended effect. The impact of LGPS membership on low paid workers' entitlement to state benefits at retirement may make existing LGPS members who are on low pay leave the scheme. It is therefore possible that the Pensions Act will be amended in coming years to introduce auto enrolment with no opt out mechanism.

4.1.6 The Head of Strategic Finance has approved this report.

#### 4.2 **Legal Issues** (Monitoring Officer)

4.2.1 There are no legal implications in following the recommendations outlined in this report. There are potential legal implications for wilful non-compliance with the legislation. The Pensions Regulator can impose penalties ranging from fines to imprisonment for employers who knowingly breach their duties and disadvantage their employees.

4.2.2 The Head of Democracy and Governance has approved this report.

#### 4.3 **Equalities**

4.3.1 There are no known equalities implications.

#### 4.4 **Potential Risks**

Potential Risk	Likelihood	Impact	Overall score
Increased expenditure as noted under Financial Implication	2	2	4
Penalties from the Pension Regulator as noted under Legal Implications	1	4	4

#### 4.5 **Staffing**

4.5.1 There may be HR staffing implications given the increased administrative requirements of automatic enrolment, however this will be monitored as the programme progresses.

#### 4.6 **Accommodation**

4.6.1 Not applicable

#### 4.7 **Community Safety**

4.7.1 Not applicable

## 4.8 **Sustainability**

4.8.1 Not applicable

### Background Papers

- <http://www.lpfa.org.uk/Employers/AUTOMATIC-ENROLMENT.aspx>