

EMPLOYMENT COMMITTEE – 18 OCTOBER 2012

PENSION AUTO-ENROLMENT

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

Purpose of Report

1. The purpose of this report is to provide the Employee Committee with information about the impact of pension auto-enrolment for Leicestershire County Council and to gain its agreement to an approach to implementation.

Background

2. Changes to pension law will require employers of more than 50 employees to “auto-enrol” employees meeting a specified criteria, into a “qualifying pension scheme”. Both the Local Government Pension Scheme (LGPS) and Teachers’ Pension Scheme (TPS) are qualifying schemes.
3. Auto-enrolment classifies employees into three groups:
 - “Entitled Worker” – aged 16-74, earning less than £5,564 per annum;
 - “Non-eligible Jobholder” - aged 16-74 earning between £5,564 and £8,105 or aged 16-21 earning over £8,105;
 - “Eligible Jobholder” – aged between 22 and state pension age and earn more than £8,105 per annum.

Auto enrolment requires that only “Eligible Jobholders” are enrolled into the relevant pension scheme and if individuals choose to opt out that they should be re-enrolled three years later. If they wish to remain non-membership they must complete another opt-out notification.

All three categories of employees are entitled to join the LGPS and TPS.

4. The regulations require that only Eligible Jobholders should be auto-enrolled into the relevant pension scheme. In addition, the LGPS and TPS rules require that the County Council continues to auto-enrol all staff joining the Council regardless of whether they are an Eligible Jobholder.
5. Each employer is allocated a date (known as a “staging date”) at which the changes become effective. The staging dates begin from October 2012, starting

with larger employers. The County Council has been allocated a staging date of 1 February 2013.

6. There is an option to postpone the allocated staging date of 1 February 2013 by up to 3 months.
7. The regulations allow employers to defer auto-enrolment of existing employees that have already opted out until 2017. These staff may at any time still choose to join the pension scheme if they so wish.

Employer Actions

8. One month prior to the staging date, the County Council will be required to write to all employees to explain pension auto-enrolment, the eligibility criteria, how this will affect them and to remind them about their eligibility to join the relevant pension scheme.
9. Eligible jobholders have the right to opt out of the relevant pension scheme as before, however they must become a member of the scheme to opt out rather than opting out prior to joining. This will require a change in process and the documentation employees receive and are required to complete.

Financial Impact

10. One month prior to the staging date, Entitled Workers and Non-eligible Job Holders will receive a letter reminding them of their option of joining the relevant pension scheme. This could increase pension membership for these groups.
11. At the staging date, Eligible Jobholders will be entered into the relevant pension scheme. Government research indicates that 30% of current non-members will remain pension members after being auto-enrolled. Experience from operating the LGPS indicates that 10% is the more likely figure. There is of course the possibility of 100% remaining in the scheme. The financial impact of these potential outcomes for the LGPS is detailed below:

	Number of current non-members	Employer contribution (18.65%)		
		100%	30%	10%
Entitled Workers choose to join	2143	£903,604	£271,081	£90,360
Non-eligible Jobholders choose to join	581	£888,087	£266,426	£88,809
Eligible Jobholders do not opt out	1344	£3,891,732	£1,167,520	£389,173
Totals	4068	£30,556,037	£1,705,027	£568,342

12. The table demonstrates that the potential increase in employer contributions could be £3.89m per annum; however the more realistic increase is 10% for Eligible Jobholders only, which is £389,173 per annum.

Conclusions

13. It is proposed that the County Council will postpone the implementation of auto-enrolment from 1 February 2013 to 1 April 2013 in order to align with the start of the new financial year. This postponement would be permissible as it is within the three month period of postponement set out in the regulations. From 1 April 2013, all new employees who choose to opt out of the relevant pension scheme will, if they meet the Eligible Jobholder criteria, be re-enrolled onto the Scheme three years later.

14. It is further proposed that the County Council will defer auto-enrolment of employees who have already opted out of the relevant pension scheme, until 2017, as permitted by the regulations. This would therefore delay the additional cost of eligible Jobholders who are enrolled onto the Pension Scheme not choosing to opt out.

Recommendations

It is recommended that the Employment Committee agree to:

- (a) Postpone the implementation of auto-enrolment as set out in paragraph 13 of the report; and
- (b) Defer auto-enrolment of employees who have already opted out of the relevant pension scheme as set out in paragraph 14 of the report.

Background Papers

None

Circulation under the Local Issues Alert Procedure

None

Officers to Contact:

Andrea Denham, HR Business Partner
Tel: 0116 3055261
Email: andrea.denham@leics.gov.uk

Equal Opportunities Implications

The Pension Schemes continue to open to all County Council employees, regardless of their employment status. Access to join the Schemes is however restricted to those over 75 years old, and for the Teachers' Pension Scheme, to those under 18 years old.