

Appointments Board – 14th February 2013

Pension Schemes - Automatic Enrolment and Transitional Delay

1. Summary of the report

To inform Appointments Board of the changes introduced as a result of the Occupational and Personal Pension Schemes (Automatic Enrolment) Regulations 2010 (as amended) and the subsequent impact on the Authority's pension scheme administration.

2. Recommendations

That Appointments Board recommends that Council approve the transitional delay until 1st October 2017 which in turn will avoid a potential financial strain of approx £4.6 million per annum on the Authority."

3. Background Information

i) Legislation

The Pensions Act 2008 laid the foundations for Pension Reform and set out the initial principles of Automatic Enrolment. This was further substantiated within the Occupational and Personal Pension Schemes (Automatic Enrolment) Regulations 2010 (as amended) and The Pensions Regulator later released documentation to assist with its implementation.

ii) Background

It is a well-known fact that the population is living longer which puts a strain on the Government in funding the population on retirement. The above-mentioned Legislation has been put in place in an attempt to actively encourage employees to make their own provision for pension income at retirement, in the hope of alleviating some of the strain on Government funds.

The Legislation compels the employer to automatically enrol employees who meet the minimum age and earnings criteria at their 'Staging Date' into a qualifying pension scheme. It also requires the employer to automatically enrol those employees who have previously opted out of the pension scheme prior to the Staging Date, although the employer can exercise a 'Transitional Delay' for this segment of employees only. This means that the employer can delay the automatic enrolment of these staff who have already opted out until 1st October 2017.

The 'Staging Date' is determined by the size of the employer's PAYE scheme and on this basis, Walsall MBC's staging date is **1st March 2013**.

While employees will be automatically enrolled at the Staging Date and on the triennial anniversary of this date, employees will still have the option to opt out at

any time, although the Legislation makes it more cumbersome for an employee to do this.

To a large extent, the authority already undertakes automatic enrolment for new starters under the Local Government Pension Scheme and Teachers Pension Scheme rules. Therefore the position for these will not change significantly as a result of this legislation – new starters will still be put into the pension scheme when they commence employment but will be able to opt out if they wish.

As a result of the Legislation, the authority will however be required to monitor on a monthly basis those who have already opted out of the pension scheme and to enrol them into the appropriate pension scheme at the point they meet the eligibility criteria prescribed under the legislation.

Regardless of the introduction of automatic enrolment, all employees can opt in to the appropriate pension scheme at any time, regardless of their earnings and age (as long as they are under age 75).

4. Financial

The introduction of the Automatic Enrolment Legislation will have a financial impact on the authority. When an employee is enrolled into a qualifying pension scheme, the employer will obviously have to pay the associated employer pension contribution to the scheme. The current employer contribution rates for the pension schemes are as follows:

Local Government Pension Scheme	20.1% of pensionable pay
Teachers Pension Scheme	14.1% of pensionable pay

The impact of these rates will be offset marginally by a reduction in employer national insurance contributions of approximately 3.4% of earnings that are subject to national insurance.

The potential additional cost to the authority associated with the introduction of automatic enrolment is estimated to be approximately £4.68 million per annum in employer pension contributions, having taken into account the reduction in national insurance contributions mentioned above.

Table 1 – Employer Pension Contribution Potential Savings by Directorate

Children's Services (School based)	£ 2,073,712.62
Children's Services (Council based)	£ 559,473.13
Neighbourhood Services	£ 664,529.72
Regeneration Services	£ 415,951.21
Resources	£ 463,824.82
Social Care & Inclusion	£ 505,768.98
Total Employer Contribution Savings	£ 4,683,260.49

By applying the Transitional Delay to defer the implementation of automatic enrolment until 1st October 2017 for those who have already opted out, the authority could save approximately £21 million in employer contributions.

It is also anticipated that there will be an actual increase in ongoing administration costs, both in terms of additional staff required to undertake the increased workload and also the physical resources (paper, printing and postage costs) required to provide regular written communication to employees on pension scheme status and eligibility.

5. Legal Considerations

There are potential legal issues associated with conscious non-compliance with the Legislation. In particular, The Pensions Regulator has the powers to impose fines, prosecutions and possible imprisonment for employers who knowingly contravene their employer duties and disadvantage their employees. It is therefore imperative that the authority only exercises a transitional delay in accordance with legislation

6. Risk Management

Key risks

i) Financial Penalties

Automatic enrolment is obligatory for all employers and The Pension Regulator has introduced a range of financial penalties for employers who do not comply with their duties under the Pensions Act 2008. Penalties can be as high as a £50,000 fixed penalty notice or a £10,000 per day escalating penalty notice for non-compliance with the Legislation.

ii) Communication Issues

If the changes introduced by this Legislation are not communicated effectively to employees both in the lead-up to the Staging Date and beyond, there is the risk of confusion and uncertainty amongst employees regarding the changes.

iii) IT and System Issues

There are potential risks associated with a change in IT and payroll systems. Any change in system is likely to impact on the quality of data and reports that are required to achieve successful automatic enrolment, particularly around the system change-over date.

Opportunities

Opportunities associated with auto enrolment relate to individual members of staff in that the active inclusion in a pension scheme may result in employees making pension arrangements for their futures.

Audit considerations

Audit will need to be made aware of the new Legislation and controls will need to be put in place to ensure that the authorities obligations are being met.

7. People

The impact of Automatic Enrolment Legislation will have some impact on all Walsall MBC employees. Pension scheme eligibility will be checked each month and qualifying employees will be entered into the relevant pension scheme or given the option to opt in if they do not meet the age and earnings criteria.

Every employee will need to be written to at the Staging Date giving details of their pensionable status under the Legislation and the options that they have regarding membership.

There are no Health and Safety impacts to be considered as a result of this Legislation. Because the Legislation affects all employees, there are no equality issues to consider.

8. Consultation

Initial discussions have taken place with trade unions who are supportive of the transitional delay.

The following will also need to be consulted as a result of the changes:

All employees, regardless of pensionable status
Finance
Legal Services
Human Resources
Payroll Services
Walsall Schools
Contract Customers (who will have their own staging date)
Audit

Author

Lisa Hemus
Senior HR Manager
☎ 655657
✉ hemusl@walsall.gov.uk

Andy Pugh
Pensions Control Advisor
☎ 655694
✉ pugha@walsall.gov.uk