

<b>COMMITTEE:</b> <b>Pensions Committee</b>	<b>DATE:</b> <b>15 November 2012</b>	<b>CLASSIFICATION:</b> <b>Unrestricted</b>	<b>REPORT NO.</b>	<b>AGENDA NO.</b>
<b>REPORT OF:</b> <b>Corporate Director of Resources</b> <b>ORIGINATING OFFICER(S):</b> <b>Simon Kilbey</b> <b>Service Head – Human Resources &amp; Workforce Development</b>		<b>TITLE:</b> <b>Workforce Pension Reform: Automatic Enrolment</b>  <b>Ward(s) affected:</b> <b>N/A</b>		

<b>Lead Member</b>	<b>Cllr Zenith Rahman: Chair of Pensions Committee</b>
<b>Community Plan Theme</b>	<b>All</b>
<b>Strategic Priority</b>	<b>All</b>

## 1. SUMMARY

- 1.1. The Government has introduced workplace pension reforms in order to encourage people into pension saving through the process of auto-enrolment. This means most employees will need to be automatically enrolled into a qualifying pension scheme and must opt out if they do not wish to participate. The process starts with larger employers in 2012 and continues on a phased basis through to 2017.
- 1.2. This report sets out this Council's response to these requirements and provides implementation options being adopted for automatic enrolment.

## 2. DECISIONS REQUIRED

- 2.1 Members are recommended to note the report.

## 3. REASONS FOR DECISIONS

- 3.1 The report is for information and provides Members with details of the Government's workplace pension reform introduced for employers.

## 4. ALTERNATIVE OPTIONS

- 4.1 The report is for information. The change is legislative, and the only alternative options relate to the timing of implementation.

## 5. BACKGROUND

- 5.1 People are living longer and if they do not plan and save for retirement it is likely they will have inadequate pension provisions for their later years. To encourage more people to do so the Government has introduced an element of compulsion into pension saving through the process of auto enrolment.

## **6. RESPONSIBILITIES - DEPARTMENT OF WORK AND PENSIONS (DWP), THE PENSIONS REGULATOR (TPR) AND EMPLOYERS**

- 6.1. The DWP is the policy owner of the workplace pension reforms and responsible for enabling and coordinating the auto-enrolment programme and for the communication of this to workers.
- 6.2. The Pensions Regulator (TPR) is independent and is responsible for communicating the duties of the auto-enrolment provisions to employers, intermediaries and providers. TPR will contact employers before their staging date to explain what the employer requirements are. TPR also has the responsibility for the compliance regime ensuring employers are compliant with the auto-enrolment requirements. If an employer fails to comply with their duties, the TPR can issue penalties. Any fines would be charged to the employer not to the Pension Fund.
- 6.3. Most of the auto-enrolment provisions relate to duties and responsibilities placed on employers. It is, therefore, the responsibility of employers to ensure they have in place systems and processes in order to comply with the auto-enrolment requirements.

## **7. SUMMARY OF KEY EMPLOYER DUTIES**

- 7.1 All employers will be required to comply with new pension duties which are being introduced in stages starting from October 2012. Each employer will be allocated a date from when the duties apply to the employer, known as the employer's 'staging date', based on the number of people on the employer's PAYE scheme. The 'staging date' for the Council is 1 March 2013.
- 7.2 Under the new duties, employers have to:
- Provide a pension scheme to jobholders that is a qualifying scheme. (Both the Local Government Pension Scheme (LGPS) and the Teachers' Pension Scheme are qualifying schemes)
  - Automatically enrol eligible jobholders into an automatic enrolment scheme, although the employer can apply a 3 month postponement period (or "waiting period") before automatically enrolling an eligible jobholder.
  - Pay employer contributions for eligible jobholders who are enrolled in the automatic enrolment scheme.
  - Inform eligible jobholders (see 8.1) that they have been automatically enrolled, provide specified information to them, and inform them that they have the right to opt out of the scheme if they wish to.
  - Advise non-eligible jobholders (see 8.1) that they can join a qualifying scheme, provide specified information to them, and inform them that the employer will make a contribution to the qualifying scheme if they join it.
  - Advise entitled workers (see 8.1) that they can join a pension scheme (although it does not have to be a qualifying scheme and the employer is not required to contribute to it, but employer contributions to the LGPS

are, nevertheless, mandatory under the regulations governing the LGPS) and provide the entitled worker with specified information.

- Process Opt In and Opt Out notices.
- Keep accurate records on their workers including keeping track of their age and earnings at all times.
- Keep records about the pension scheme(s) used to comply with their duties.
- Register with the Pensions Regulator.
- Avoid any action whose sole or main purpose is to attempt to induce entitled worker, non-eligible jobholder or eligible jobholder to opt out of the pension scheme.
- Not screen out job applicants on grounds relating to potential pension scheme membership as an eligible jobholder or suggest that a job applicant's success could depend on whether or not, should they become an eligible jobholder, they opt out of the pension scheme.
- Re-enrol jobholders who have opted out after every 3 years.

## 8. CATEGORIES OF WORKERS

8.1 Employees will fall into one of the three categories:

- **Eligible jobholders. (auto – enrolled into a “qualifying scheme” e.g. LGPS)**  
This is a worker who is working or ordinarily works in Great Britain under the worker's contract, and who is aged at least 22 and under State Pension Age, and to whom earnings of more than the annualised equivalent of £8,105 are payable by the employer in the relevant pay reference period.
- **Non eligible jobholders. (can opt to join a “qualifying scheme”)**  
This is a worker who is working or ordinarily works in Great Britain under the worker's contract, and who is aged at least 16 and is under age 75 and to whom annualised equivalent earnings of £5,564 or more but less than or equal to £8,105 are payable by the employer in the relevant pay reference period, or who is aged at least 16 and under age 22, or has attained State Pension Age and is under age 75, and to whom annualised equivalent earnings of more than £8,105 are payable by the employer in the relevant pay reference period.
- **Entitled workers ( can opt to join a scheme )**  
This is a worker who is working or ordinarily works in Great Britain under the worker's contract, and who is aged at least 16 and is under age 75, and to whom earnings of less than the annualised equivalent of £5,564 are payable by the employer in the relevant pay reference period.

The category into which a worker falls is determined by their age and earnings. The following table illustrates the different categories of worker for automatic enrolment purposes.

Age →	16 – 21	22 - < SPA *	SPA * - < 75
Earnings			
Under lower earnings threshold (£5,564**)	Entitled worker		
Between £5,564** and £8,105***)	Non-eligible jobholder		
Over earnings trigger for automatic enrolment (£8,105****)	Non-eligible jobholder	Eligible Jobholder	Non-eligible Jobholder

\* State Pension Age

\*\* Earnings: Separate contracts treated separately

\*\*\* To align with National Insurance contributions lower earnings limit

\*\*\*\* To align with the PAYE threshold

## 9. STAGING DATES FOR EMPLOYERS

- 9.1. The 'automatic enrolment' regime is being phased in from 1 October 2012, starting with the largest employers. An employer will be required to comply with the 'automatic enrolment' duties from its 'staging date'. An employer's 'staging date' is determined by the number of people in its largest PAYE scheme, as ascertained by The Pensions Regulator based on HMRC data at 1 April 2012. The 'staging date' for the Council is 1 March 2013.

## 10. OPTIONS CONSIDERED

### 10.1 Options have been considered by the Corporate Management Team and they have decided:

- 10.1.1 To retain the Council's staging date of 1 March 2013 and not seek to bring it forward.
- 10.1.2 To use the flexibility provided by the Postponement provisions (which allow the postponement of automatic enrolment for up to 3 months after the staging date) being deferred for 3 months until 1 June 2013, to allow for all calculations and refunds to be dealt with within one financial year, and to provide sufficient time for planning and information to staff.

## 11. COMMENTS OF THE CHIEF FINANCIAL OFFICER

- 11.1. The Authority makes employer's contributions to the LGPS or Teachers Pension Scheme which currently greatly exceed the employer's contribution for staff with other pension arrangements. Implementing auto-enrolment will therefore increase employer costs should newly enrolled staff remain in the schemes. There would also be increased administration costs and potential costs associated with dealing with any anticipated increase in workloads.

- 11.2. Around 4,500 of the Tower Hamlets eligible workforce are not currently part of the pension scheme. Of these it is estimated that 3,700 would be auto-enrolled to the Local Government Pension Scheme and 418 would become members of the Teachers' Pension Scheme. In addition 156 staff from THH (wholly-owned Council subsidiary) which is a scheduled body to the LGPS would be auto-enrolled.
- 11.3. The financial impact on the Council would depend upon the number of staff that choose to stay in the scheme. Since staff are already assumed automatically to be joining the schemes when they join the Council, and have to opt out, many staff who are auto-enrolled would already have made a recent decision not to join the scheme and it is reasonable to assume that most of these would opt out again. The same assumption cannot be made about staff who have not made an explicit recent decision.
- 11.4. Clearly, numbers are not known and are extremely difficult to estimate, but an indicative cost to the Council of staff opting in to the scheme on the basis of:

	100% Take Up (per month)	50% Take Up (per month)	20% Take Up (per month)
LGPS (General Fund)	£515,200	£257,600	£103,040
LGPS (Schools)	£285,800	£142,900	£57,160
Teachers Scheme	£148,700	£74,350	£29,740
Tower Hamlets Homes	£58,600	£29,300	£11,720

However, given that these figures are calculated using the number of staff not currently in the scheme, the take up is likely to be very much less than 100%.

- 11.5. The Medium Term Financial Plan currently makes no provision for the General Fund costs of auto-enrolment. Financial implication will need to be taken into account in the budget process and will be reported to the Cabinet in due course.
- 11.6. As the report points out, the fact of auto-enrolment will increase the cash flow of the Pension Fund in a positive direction (income will increase and initially expenditure will not), which will increase the short term liquidity of the Fund. It will also increase the assets available for investment in the Fund over time, but it will also increase the long term liabilities of the Fund, which is currently not 100% funded. The impact of auto enrolment on future actuarial valuations of the Fund is unknown but is generally expected to be neutral.

## 12. **CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL)**

- 12.1 All relevant matters are set out in the body of the report which has been prepared in accordance with the relevant guidance and legislative framework.

### **13. ONE TOWER HAMLETS CONSIDERATIONS**

- 13.1 The Pension Fund Accounts demonstrate the financial stewardship of the scheme members and employers assets. A financially viable and stable pension fund is a valuable recruitment and retention incentive.

### **14. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT**

- 14.1 There is no Sustainable Action for A Greener Environment implication arising from this report.

### **15. RISK MANAGEMENT IMPLICATIONS**

- 15.1 Accounts provide an effective mechanism to safeguard the Council's assets and assess the risks associated with its activities.

### **16. CRIME AND DISORDER REDUCTION IMPLICATIONS**

- 16.1 There are no any Crime and Disorder Reduction implications arising from this report.

### **17. EFFICIENCY STATEMENT**

- 17.1 The monitoring arrangement for the Pension Fund and the work of the Pension Fund Investment Panel should ensure that the Fund optimises the use of its resources in achieving the best returns for members of the Fund.

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#### **LOCAL GOVERNMENT ACT 1972 (AS AMENDED) SECTION 100D**

#### **LIST OF "BACKGROUND PAPERS" USED IN THE PREPARATION OF THIS REPORT**

***Brief description of "background papers"***

***Name and telephone number of holder  
And address where open to inspection***

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