

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Employment in Hampshire County Council		
Date:	16 July 2012		
Title:	Workplace Pensions Reform		
Reference:	4090		
Report From:	Carolyn Williamson, Director of Corporate Resources Gavin Wright, Director of HR		
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1. Executive Summary

- 1.1 The purpose of this paper is to:
- inform on the new employer duties outlined in the Pensions Act 2011
 - seek EHCC approval to recommendations regarding a number of employer discretions within the provisions of the Act
- 1.2 Changes to the pension schemes to accommodate the provisions of the Act have not yet been finalised, however approval of recommendations in respect of the discretions will enable detailed work to continue over the summer period. If any of the final changes to the pension schemes require changes to the decisions regarding the discretionary areas over the summer period, it is proposed that delegated authority is given to the Chief Executive in consultation with the Chairman of the Employment in Hampshire County Council Committee to determine any amendment required on behalf of the EHCC Committee.

2. Contextual information

- 2.1 Under the Pensions Act 2011, new employer duties come into effect in October 2012, with different implementation dates for different employers based on the number of employees in their largest PAYE scheme. Hampshire County Council's 'staging date' is 1 January 2013.
- 2.2 In summary, from 1 January 2013 the Council must:
- automatically enrol all 'eligible' jobholders into a qualifying pension scheme, making a minimum employer contribution, and re-enrol those who have opted out every three years. For local

government, the eligible schemes are the existing schemes (LGPS and TPS), although national amendments are required to meet the duties.

- provide information to 'eligible' and 'non eligible' jobholders about auto-enrolment and pensions
- monitor workers to assess their eligibility and automatically enrol when they become eligible
- process requests to opt in and out of a pension scheme
- keep accurate records
- prevent unfair treatment of workers on grounds related to the employer duties (for example, taking action to induce a jobholder to opt out of the pension scheme or screening during recruitment on grounds relating to potential pension scheme membership)

Attachment 1 provides a more detailed overview of the categories of worker, the key requirements for each category and number of staff by category within schools and departments.

2.3 Automatic enrolment duties apply to all workers who work under a contract of employment or have a contract to perform work or services personally. Casuals, including those with a contract 'of service', are also included. The LGA are currently seeking clarification as to whether Elected Members are included.

2.4 In addition, the County Council will be responsible for ensuring a compliant payroll system for external customers.

3 Impact of automatic enrolment

3.1 At the staging date, the number of workers who are not already in a pension scheme is 15,690 (5,141 in departments and 10,549 in schools).

3.2 It is difficult to provide an accurate estimate of the additional costs associated with automatic enrolment, however, high, medium and low scenarios have been modelled based on varying percentages of staff opting to remain in or join a pension scheme:

Taxable Pay Bandings	Estimated Percentage staff who will opt to remain in or join the Pension Scheme		
	Low Scenario	Medium scenario	High scenario
Less than £10,000	0%	0%	5%
£10,000 to £15,000	5%	5%	10%
£15,000 to £20,000	10%	10%	15%
£20,000 to £25,000	10%	15%	20%
£25,000+	10%	20%	25%

Based on the above scenarios the following estimated costs have been calculated for schools and non-schools:

	Estimated Additional Employer Costs (£)		
	Low scenario	Medium scenario	High scenario
Non schools	0.4m	0.6m	0.9m
Schools	0.3m	0.4m	0.7m

3.3 The duties, as summarised in **Attachment 1**, also impose significant requirements regarding provision of information to the various groups, including those who are already a member of a scheme. The use of internal electronic communications will be explored, to ensure costs are kept to a minimum.

3.4 Ongoing maintenance of systems, monitoring and communications will also have resource and cost implications.

4 Areas of employer discretion

4.1 Staging date

- 4.1.1 The County Council can chose to bring the staging date forward to 1 October 2012. It is not recommended that the Council do so because:
- earlier implementation could increase costs through increased employer pension contributions
 - changes to business processes, contractual documentation and implementation of a SAP system update would be difficult to achieve effectively within a shorter timescale
 - there are no identified benefits to the County Council in doing so

4.2 Transitional period

4.2.1 The 'transitional period', available for employers with defined benefit schemes, enables delay of auto-enrolment of 'eligible' employees who were previously entitled to become a member of a qualifying pension scheme. The period has not yet been defined but is likely to be February 2017.

4.2.2 For the County Council, this means that the transitional period can be applied to existing, but not to new, permanent staff, temporary staff with contracts of more than three months and Supply Teachers. There are 40,119 staff in this group, of whom 2,841 in departments, and 5,206 in schools, are not a member of a pension scheme.

4.2.3 **It is therefore recommended that the transitional period is applied to all 'eligible' employees who have previously been entitled to become a member of a pension scheme.**

4.2.4 If the transitional period were used, the County Council would need to write to staff notifying them that auto-enrolment will be delayed until the end of the transitional period. Should a worker change category during

the period, the auto-enrolment duties would apply.

4.3 Use of a three month 'postponement' period

- 4.3.1 'Postponement' allows delay of the assessment of workers for three calendar months and can be applied to all workers or groups of workers from either the staging date, the first day of employment or the date a worker becomes an 'eligible jobholder'.
- 4.3.2 If the County Council chooses to use the transitional period, this group of workers will not be affected by postponement. However the use of postponement may be beneficial for casuals and temporary staff with contracts of less than 3 months.
- 4.3.3 Under current LGPS and TPS regulations, all staff are automatically enrolled into a pension scheme on their first day of employment. Those with a contract of less than 3 months, which includes casuals, are currently not eligible for membership of LGPS. It is anticipated that a scheme amendment will enable this group of workers to be put in to the LGPS during the first three months if they are assessed as, or become, an 'eligible jobholder'. However it is possible that the amendment will not be made before 1 January 2013. **It is therefore proposed that EHCC consider the recommendation to apply a postponement period to any worker not affected by the transitional period if it becomes necessary, in order to comply with regulations.**
- 4.3.4 If the County Council chooses to use postponement, casual workers would need to be notified at the start of the period of their right to opt in during the postponement period.

5 Estimated Costs

- 5.1 The following provides a high level estimate of the Employer costs for implementing auto enrolment:
- Year one costs are estimated at of £87k for developing and implementing the business processes and system for the staging date in Jan 2013. this includes project resource costs, IT development costs, and production / despatch of letters to staff.
 - Year two and three costs are estimated at £7.5k per annum for ongoing administration including maintenance of the approach for new starters and existing staff who become eligible for auto enrolment due to earnings or age.
 - Year four costs are estimated at £39.4k for the re-auto enrolment of staff previously enrolled in year one but who then opted out, and for communicating to those staff where the transitional period was applied in year one.

These are high level estimates based on current information and are likely to vary. The areas of cost are primarily:

- IT development - as we have yet had opportunity to review the SAP solution and the extent to which this may need any configuration within the County Council.

- the approach adopted for issuing letters to staff and the extent to which they can be sent to work base addresses electronically rather than be posted to home addresses (current assumptions are based on 70% courier or electronic and 30% being posted to home addresses).

6 Recommendations

6.1 That EHCC note the new employer duties and potential impact.

6.2 That EHCC approve the following recommendations regarding the employer discretions, subject to confirmation of the final rule changes to the pension schemes:

- the County Council retains it's current 'staging date' of 1 January 2013
- the transitional period is applied to all 'eligible' employees who have previously been entitled to become a member of a pension scheme

the option to apply a three month period of 'postponement' to all employees not affected by the transitional period if it becomes necessary, in order to comply with the regulations

6.3 That EHCC approve that, if any rule changes to the pension scheme require changes to the decisions regarding the discretionary areas over the summer period, that delegated authority is given to the Chief Executive in consultation with the Chairman of the Employment in Hampshire County Council Committee to determine any amendment required on behalf of the EHCC committee.

Attachment 1 Summary of key duties by category of worker

Category of worker	Description	Key Duties	Approximate number of HCC staff	
Eligible jobholder	Permanent staff, temporary staff, casuals/personal service workers who are: <ul style="list-style-type: none"> ▪ aged between 22 and state pension age (SPA) ▪ ordinarily work in the UK ▪ earning above £7,475 pa (£622.92 in a monthly pay reference period) 	<ul style="list-style-type: none"> ▪ automatically enrol ▪ provide information to the individual about automatic enrolment and what it means, about the right to opt out and opt back in and a statement about where to find further information about pensions and saving for retirement ▪ give information to the pension scheme about the eligible jobholder ▪ process any opt out notice within the 'opt-out period' ▪ refund pension contributions ▪ automatically enrol every 3 years (unless has opted out in the preceding year) ▪ keep records of the automatic enrolment process ▪ if using 'postponement', notify jobholders at the start of the period of the right to opt in during the postponement period 	24,789 eligible jobholders Of these: 12,541 in LGPS 8,675 in TPS 3,573 not in a pension scheme (and would therefore be automatically enrolled)	
			Schools LGPS: 4,886 TPS: 8,257 None: 1,855	Non schools LGPS: 7,655 TPS: 418 None: 1,718
Non-eligible jobholder	Permanent staff, temporary staff, casuals/personal service workers who are: <ul style="list-style-type: none"> ▪ aged 16-21 or SPA-74 ▪ ordinarily work in the UK ▪ earning above £7,475 (£622.92 in a monthly pay reference period) <i>e.g. not eligible on age grounds</i>	<ul style="list-style-type: none"> ▪ provide information about the right to opt in ▪ arrange pension scheme membership for those who decide to opt in ▪ process any opt out notice ▪ keep records of the enrolment process ▪ if using postponement, notify jobholders at the start of the period of the right to opt in during the postponement period 	5,801 non-eligible jobholders Of these: 3,443 in LGPS 619 in TPS 1,739 not in a pension scheme (and would therefore need to continuously monitor)	

Category of worker	Description	Key Duties	Approximate number of HCC staff	
	or <ul style="list-style-type: none"> ▪ aged 16-74 ▪ working in UK ▪ earning above £5,035 (£419.58 in a monthly referent period) but below £7,475 <i>e.g. not eligible on earnings grounds</i>		Schools LGPS: 2,376 TPS: 570 None: 959	Non schools LGPS: 1,067 TPS: 49 None: 780
Entitled worker	Permanent staff, temporary staff, casuals/personal service workers who are: <ul style="list-style-type: none"> ▪ aged 16-74 ▪ ordinarily work in UK ▪ earning below £5,035 (or £419.58 in a monthly pay reference period) 	<ul style="list-style-type: none"> ▪ provide information about the right to join a pension scheme (unless worker is already a member or has previously received this information) ▪ arrange pension scheme membership if the entitled worker decides to join and keep records of the joining process ▪ if using 'postponement', notify jobholders at the start of the period of the right to opt in during the postponement period 	17,257 entitled workers Of these: 4,902 in LGPS 1,977 in TPS 10,378 not in a pension scheme (and would therefore need to continually monitor)	
			Schools LGPS: 3,931 TPS: 1,920 None: 7,735	Non schools LGPS: 971 TPS: 57 None: 2,643

CORPORATE OR LEGAL INFORMATION:

Links to the Corporate Strategy

Hampshire safer and more secure for all:	no
Corporate Business plan link number (if appropriate):	
Maximising well-being:	no
Corporate Business plan link number (if appropriate):	
Enhancing our quality of place:	no
Corporate Business plan link number (if appropriate):	
OR	
This paper seeks decisions in relation to implementation of workplace pension reform measures contained within the Pensions Act 2011 (Part 2).	

Other Significant Links

Links to previous Member decisions:		
<u>Title</u> None	<u>Reference</u>	<u>Date</u>
Direct links to specific legislation or Government Directives		
<u>Title</u> The Pensions Act 2011		<u>Date</u> 03/11/2011

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

<u>Document</u>	<u>Location</u>
None	

IMPACT ASSESSMENTS:

Equalities Impact Assessment:

The provisions of the Pensions Act 2011 in relation to automatic enrolment apply to all staff groups within Hampshire County Council irrespective of gender, race, disability or religion.

Impact on Crime and Disorder:

N/A

Climate Change:

N/A

How does what is being proposed impact on our carbon footprint / energy consumption?

N/A

How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

N/A