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<b>Report To:</b>	<b>Policy &amp; Resources Committee</b>	<b>Date:</b> 13 November 2012
<b>Report By:</b>	<b>Head of Organisational Development, Human Resources and Communications</b>	<b>Report No:</b> HR/19/12/AM
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<b>Subject:</b>	<b>Auto Enrolment – Pensions Funds</b>	

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## 1.0 PURPOSE

- 1.1 The purpose of this report is to advise the Policy and Resources Committee of a potential budget pressure due to the changes in how we enrol employees in both the Local Government Pension Scheme, administered by the Strathclyde Pension Fund (SPFO) and the Scottish Teachers Superannuation Scheme, administered by the Scottish Public Pensions Agency (SPPA).

## 2.0 SUMMARY

- 2.1 The change to how employees are enrolled in pension schemes came into force from October 2012 and will be implemented on a phased basis subject to employer size. New employees of Inverclyde Council must be assessed for auto enrolment from May 2013.
- 2.2 For existing, eligible employees who are not in a Pension Scheme, the Council has the option to either enrol them in May 2013, the same time as new employees, or delay this through transitional arrangements until October 2017. The Council is required under the new legislation to write to existing employees notifying them of the decision to delay auto enrolment. It is estimated that 20% of existing, eligible employees not in the pension scheme will remain in the scheme once auto-enrolled. This cost has been included as a pressure for the 13/15 budget. It should be noted that employees may opt in or out at any time.
- 2.3 Auto enrolment is designed to encourage employees to save for their future and to stay in pension funds but will cost the Council more money in employer Pension Contributions so resulting in a budget pressure. The current turnover across the Council is around 5%. The budget pressure has been calculated on the basis that 20% of this turnover will remain in the pension fund.
- 2.4 Auto enrolment will also be administratively burdensome e.g. employers must monitor their workers' eligibility status for auto enrolment purposes, which will include keeping track of each workers' age and earnings at all times. It has been estimated that the administrative burden could be between £5 to £20 per employee per annum. There is software available called I-connect which interfaces directly with SPFO for the purpose of informing them of changes, new starts and leavers. The costs are based on employee numbers and seem reasonable but are still being finalised. Pre-staging costs are £1,236 and annual costs would be £2,470 per annum.
- 2.5 New and existing employees who are auto enrolled must be enrolled in a scheme before they can opt out. Once a deduction from pay is made they are able to opt out. Opt out forms must be obtained from the Scheme Administrators directly.

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- 2.6 There will still be a number of employees who will opt out of the pension scheme and it is estimating or guessing what that figure will be as to how we determine the budget pressure.

### **3.0 RECOMMENDATIONS**

- 3.1 That the Policy and Resources Committee agree the following:
- 3.2 That for all new starts, the Council implements auto enrolment from May 2013. That an estimated cost of £23k to the Council based on a figure of 20% of the Council's turnover of employees remaining in the pension scheme be built into the current budget process for 2013/15.
- 3.3 That for all existing employees the transitional arrangements for auto enrolment commence in October 2017 with discretion to postpone for a further 3 months.
- 3.4 That the estimated budget implications of £460k be built into the budget process at the appropriate time.
- 3.5 That the Policy and Resources Committee note that the Council is required under new legislation to write to all current employees not in the pension scheme advising them of the Council's position.
- 3.6 That the decision to purchase and maintain I-connect be delegated jointly to the Head of Organisational Development, Human Resources and Communications and the Chief Financial Officer once more information becomes available.

Head of Organisational Development,  
Human Resources and Communications

## 4.0 BACKGROUND

4.1 The rules in respect of employees joining either of the pension funds are to change. The rules applicable to Inverclyde Council are as follows:

New Starts: For all employees, May 2013 is the date auto enrolment will commence.  
Existing Employees: There are two dates, the above date of May 2013 when the Council can decide to enrol all employees not in the pension scheme or October 2017 known as the transition date where the Council can opt to delay auto enrolment for existing employees thus giving the Council time to prepare for the budget impact\*.

\* It should be noted that if the Council decide to opt for the transition method, October 2017, then that is fixed and cannot be brought forward. The Council can decide to postpone auto-enrolment for a further 3 months at that time.

4.2 What happens now

New Employees: When an employee joins the Council it is automatic that the payroll team enrol them in either pension fund. From July 2012, new employees cannot opt out prior to being enrolled. Previously they could complete a form prior to commencing employment advising that they wished to opt out of the pension scheme.

Existing Employees: An existing employee can decide to opt out of the pension scheme at any time or decide to join the pension scheme at any time. They do so for various reasons, joining a private pension scheme, already having a pension, etc.

4.3 What will happen in the future

New Starts: All new starts from July 2012 do not have the opportunity to opt out of the pension scheme prior to starting with the Council. Payroll must start the employee in a pension scheme and the employee can only opt out after they have made one contribution. To opt out they will have to contact the pension provider (SPFO or SPPA). They cannot do this through the Council.

The aim of the change is that if a new employee has to join the scheme and make a contribution then it will be more of a nuisance to opt out so more will remain in the scheme.

Existing Employees: We will have to write to all employees advising of the action the Council will take. Again when auto enrolment starts, the eligible employee will be auto-enrolled. If they want to opt out they will need to request an opt out form from the pension administrators and submit it to the Council before they can cease contributions.

#### 4.4 Information

##### Existing Employees Appendix 1

Appendix 1 shows the number of existing employees per Grade A to O who would be subject to auto-enrolment and who did not remain in the pension scheme. It also includes the number of eligible teachers and sessional workers who would be subject to auto-enrolment and who did not remain in the pension scheme.

The appendix also includes a breakdown of the total cost to the Council if employees were to join the pension schemes. The appendix shows the cost to the Council where 10, 20 and 25 % of the employees remained in the pension scheme and did not opt out.

The position in respect of new starts is based on a turnover of 5% across the Council. Costs have been included in the pressure by applying 5% turnover to the staff not in the pension fund detailed in Appendix 1 and assuming that year on year 20% will remain in the pension scheme.

- 4.6 Employees under the age of 22 and who do not earn £8105 are not eligible for the auto enrolment process. This is not to say that they cannot join the pension scheme but the Council does not require to auto enrol them.
- 4.7 It should be noted that for both new starts and existing employees then a number will remain in the scheme while some will decide to opt out.

#### 5.0 PROPOSALS

5.1 It is proposed that the Policy and Resources Committee consider that for:

- New Employees, the Council commences auto enrolment in May 2013
- For Existing Employees, the Council implements the transitional arrangements with auto-enrolment commencing in October 2017 with discretion to postpone for a further 3 months or

5.2 The option in 5.1 allows time to build funding into the budget process

5.3 If the Council agree to the transition arrangements then all existing eligible employees not in the pension scheme will require to be written to advising of the decision.

#### 6.0 IMPLICATIONS

6.1 Finance: The financial cost is based on 20% of current employees joining the pension fund on receipt of the letter notifying them that the Council are applying the transition arrangements and 20% of new staff based on a 5% annual turnover, remaining in the pension fund.

## Financial Implications – One off Costs

Cost Centre	Budget Heading	Budget Year	Proposed Spend this Report	Virement From	Other Comments
	Software		£1,236		Pre Staging

## Financial Implications – Annually Recurring Costs/ (Savings)

Cost Centre	Budget Heading	With Effect from	Annual Net Impact	Virement From (if Applicable)	Other Comments
Employee Costs	IT Maintenance	April 13	£2,470		Part year impact
	Pension	May 13	£460,000		
		April 14	£483,000		
		April 15	£506,000		

6.2 Human Resources: All HR implications included within report

6.3 Equalities: All implications are governed by statutory legislation. The only potential equality issues would be if we operated a non qualifying pension scheme.

## 7.0 CONSULTATION

7.1 This issue was raised at the Joint Budget Group. Once agreed, further consultation with the trade unions will take place.

## 8.0 LIST OF BACKGROUND PAPERS

Appendix 1 Estimated costs for existing employees

## Current Employees Transitional Date (1st October 2017)

Grade	Number of Employees	Pensionable Pay	Cost to Council if Employees Remained in Pension Scheme by Percentage			
			100%	10%	20%	25%
A	17	£165,931.17	£32,024.69	£3,202.51	£6,404.93	£8,006.21
B	40	£391,603.09	£75,579.35	£7,557.97	£15,115.88	£18,894.90
C	204	£2,489,332.15	£480,441.05	£48,044.15	£96,088.03	£120,110.29
D	245	£3,204,690.61	£618,505.40	£61,850.74	£123,701.12	£154,626.63
E	73	£1,254,807.45	£242,177.80	£24,218.01	£48,435.58	£60,544.60
EF	11	£181,681.10	£35,064.47	£3,506.47	£7,012.91	£8,766.15
F	75	£1,378,661.92	£266,081.79	£26,608.24	£53,216.35	£66,520.59
FG	1	£13,514.00	£2,608.20	£260.82	£521.64	£652.05
G	16	£409,708.79	£79,073.77	£7,907.36	£15,814.76	£19,768.46
H	26	£755,386.58	£145,789.61	£14,578.97	£29,157.93	£36,447.50
HI	22	£665,663.50	£128,473.01	£12,847.31	£25,694.58	£32,118.31
I	4	£127,482.00	£24,604.02	£2,460.40	£4,920.80	£6,151.02
IJ	1	£12,341.76	£2,381.96	£238.20	£476.39	£595.49
J	2	£72,732.00	£14,037.28	£1,403.72	£2,807.46	£3,509.32
K	6	£218,880.54	£42,243.94	£4,224.40	£8,448.78	£10,560.99
L	1	£33,625.70	£6,489.76	£648.98	£1,297.95	£1,622.44
O	2	£103,984.00	£20,068.92	£2,006.90	£4,013.78	£5,017.24
OTHERS	2	£39,648.95	£7,652.25	£765.23	£1,530.45	£1,913.07
TEACHERS	20	£526,526.40	£78,452.43	£7,845.26	£15,690.48	£19,613.14
Grand Total	768	£12,046,201.71	£2,301,749.70	£230,175.64	£460,349.80	£575,438.40

## New Employees (1st May 2013)

Grade	Number of Employees	Pensionable Pay	Cost to Council if Employees Remained in Pension Scheme by Percentage			
			100%	10%		25%
A	1	£8,455.12	£1,631.84	£163.18	£326.37	£407.96
B	2	£22,192.43	£4,283.14	£428.31	£856.63	£1,070.79
C	60	£826,795.63	£159,571.56	£15,957.16	£31,914.31	£39,892.89
D	13	£164,686.62	£31,784.52	£3,178.45	£6,356.90	£7,946.13
E	9	£147,042.62	£28,379.23	£2,837.92	£5,675.85	£7,094.81
F	7	£120,405.78	£23,238.32	£2,323.83	£4,647.66	£5,809.58
G	1	£25,466.00	£4,914.94	£491.49	£982.99	£1,228.74
H	2	£58,282.00	£11,248.43	£1,124.84	£2,249.69	£2,812.11
HI	7	£212,232.00	£40,960.78	£4,096.08	£8,192.16	£10,240.20
I	2	£60,886.00	£11,751.00	£1,175.10	£2,350.20	£2,937.75
K	1	£36,366.00	£7,018.64	£701.86	£1,403.73	£1,754.66
L	1	£33,625.70	£6,489.76	£648.98	£1,297.95	£1,622.44
M	1	£44,835.00	£8,653.16	£865.32	£1,730.63	£2,163.29
TE	21	£409,185.90	£60,968.70	£6,096.87	£12,193.74	£15,242.18
Grand Total	128	£2,170,456.80	£400,894.02	£40,089.39	£80,178.81	£100,223.53