

**REPORT TO:** Cabinet

**MEETING DATE:** 15 January 2013

**BY:** Executive Director (Support Services)

**SUBJECT:** Pensions Auto-Enrolment – Transitional Arrangements Option

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## **1 PURPOSE**

- 1.1 To advise Cabinet of the financial and operational implications of auto enrolment and to recommend exercising the option to delay auto-enrolment for certain employees to September 2017.

## **2 RECOMMENDATIONS**

- 2.1 That Cabinet notes the potential financial and operation implications of auto-enrolment
- 2.2 That Cabinet approves that the Council applies the transitional arrangement option.

## **3 BACKGROUND**

- 3.1.1 A report was taken to JCC in June 2012 explaining the impact and obligations the Pension Act 2011 places on employers and in particular the Council.
- 3.1.2 In summary the requirement placed on the Council is that by its implementation date 1 May 2013 (the date on which the Council must commence auto enrolment), the Council must:
- provide employees access to a qualifying pension scheme;
  - pay appropriate employer pension contributions; and
  - automatically enrol eligible employees into the pension scheme.
- 3.1.3 The current Local Government and Teaching pension funds meet the requirement to be a qualifying pension scheme. Approximately 9% (446) of employees who are eligible to join these funds have to date exercised their right to opt out. Under the new Act, there is an obligation to automatically enrol all eligible employees who would then subsequently

need to determine whether they wish to remain members of the scheme or consciously opt out. There would be additional employer pension contributions relating to those who chose to remain in the pension fund.

3.1.4 Communications have already begun with the Trades Unions and employees alerting them to the introduction of pension's auto-enrolment. In addition there is now a national advertising campaign on TV funded by the government to raise employee awareness.

3.1.5 Within the Pension Act there is the option to apply "transitional arrangements" i.e. to delay the automatic enrolment of certain employees.

### **3.2 Applying the Transitional Arrangements?**

3.2.1 As both the Local Government and Teaching Pensions Funds are defined benefit schemes, this gives the Council the opportunity to delay auto-enrolment until 30 September 2017, in respect of the 446 employees detailed in 3.1.3 above as they meet conditions below:

1. The employee must have been in post before the implementation date, and
2. At the date of implementation the employee was entitled to become an active member of the pension scheme, and
3. The employee is, and always has been, entitled to become a member of the pension scheme, and
4. The pension scheme is a qualifying scheme, and the employee is entitled to become a member, on or after the implementation date.

3.2.2 However, though we can delay automatically enrolling these 446 employees, we still have to write to them in advance of 1 May 2013 informing them of this action and advising them they are eligible to join the pension fund now if they wish.

3.2.3 It is recommended that Cabinet should agree to apply the transitional arrangements to the approximately 446 employees who have previously opted out of the current scheme, potentially defraying much of the additional cost of pension contributions, recognising that some may choose to exercise their right to join the fund anyway.

## **4 POLICY IMPLICATIONS**

4.1 The implementation of these arrangements requires a review of a number of the Councils Policies including Recruitment and Selection and Casual Workers Policy as well as employee contractual documentation.

## **5 EQUALITIES IMPACT ASSESSMENT**

- 5.1 This report is not applicable to the well being of equalities groups and an EIA is not required.

## **6 RESOURCE IMPLICATIONS**

- 6.1 Financial – There is potential for significant costs of up to £900k to the Council through increased membership as a result of auto-enrolment. By exercising its right to apply the “transitional arrangements” to those who have already chosen to opt out of joining one of the pension funds the Council could defray employer contributions for a significant part of that.. Consideration will need to be given to making some sort of provision within the budget development process for 2013-16.
- 6.1.1 In addition the requirements of auto-enrolment place a major administrative burden on HR, but in particular Payroll in order to comply with the new legislation, communication with employees and the constant monitoring of earnings.
- 6.2 Personnel – There are a number of ongoing communications which need to be undertaken with the Trades Unions and employees, this will be jointly undertaken between HR and Payroll.
- 6.3 Other - None

## **7 BACKGROUND PAPERS**

- 7.1 Auto-Enrolment - JCC Report June 2012

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