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| Committee(s): | Date(s): | Item no. |
| Establishment | 22 nd November 2012 | |
| Subject: Auto-Enrolment and Pensions | Public | |
| Report of: Chamberlain and Director of HR | For Decision | |

Summary

The Pensions Act 2008 puts into law the requirement to automatically enrol all workers aged between 22 and state pension age and earning above £8,105 per annum (referred to as eligible workers) in to a qualifying workplace pension scheme.

Except for uniformed police officers, the Corporation's staging date for implementation of auto-enrolment (AE) is 1st May 2013. If we wished, all employees meeting the above criteria and not already members of the Local Government Pension Scheme (LGPS) or Teachers' scheme could be auto enrolled from that date. A separate staging date, 1st October 2013, applies for uniformed police officers.

As for all employers, our HR and Payroll systems will require additional software to undertake AE. The Corporation's system, iTrent, will have such a software upgrade to accommodate AE, due for release late November 2012 and implementation in January 2013 although, as yet, no demonstration system has been made available which leaves us in an uncertain position as to what the software will undertake in terms of processes.

Historically, new employees of the City of London have been contractually enrolled into the relevant pension scheme where their contract of employment is for a period of three months or more, so AE requirements for new staff who are eligible workers will be implemented from 1st May 2013 with relatively little impact. Similarly, AE can and should be applied in full to uniformed officers from the later 1st October staging date. For LGPS and Teachers scheme, however, we expect that most of our 500 employees who have opted out of these pension schemes will in short order opt out again under AE, and so believe it is not sensible to try to implement this manually for existing employees.

There is an option to apply transitional arrangements, delaying the effective date of auto enrolment of existing eligible workers until 1st October 2017. We intend to apply this. No one will lose out as all 500 affected employees will be individually notified and be reminded they have the right to join the pension scheme if they wish.

Recommendation

- The City of London Corporation should apply the transitional arrangements delaying the effective date for auto enrolment of existing employees, other than police officers, until 1st October 2017 advising them of this action and that they can join the LGPS or Teachers scheme at any time should they wish to do so.

Main Report

Background

1. The Pensions Act 2008 puts into law reforms to encourage greater pension saving, a key element of this is Automatic Enrolment (AE) of 'eligible workers' into a qualifying workplace pension scheme. The Local Government Pension Scheme (LGPS), Teachers' and Police schemes are qualifying schemes. Eligible workers are those employees that are aged between 22 and state pension age and earning above the income tax personal allowance (£8,105 for 2012/13). Government consultation on raising this threshold to £9,205 for 2013/14 closed on 17th October 2012
2. All employers have been given a date from when they will have to implement AE, known as the staging date, with the option to delay or bring this forward by up to three months. The staging date for the City of London is 1st May 2013. This applies to all operational areas of the City of London Corporation, including teachers and civilian police staff, although excludes uniformed police officers. A separate payroll is operated for uniformed police officers and so, in the eyes of the Pensions Regulator, the City of London Police is considered a separate employer and has been given a later staging date of 1st October 2013. Given significantly lower numbers of affected employees, around 50 individuals, AE can, and should be applied for uniformed police officers in full from 1st October 2013.
3. An option exists to apply a transitional delay for automatic enrolment of existing employees, deferring the staging date for employees classed as eligible workers that had previously opted out of the LGPS or Teachers scheme until 1st October 2017. If transitional arrangements are applied, there is no option to auto enrol existing employees before 1st October 2017.
4. There is no option with respect to new employees who will automatically be enrolled in the LGPS or Teachers scheme when they commence employment with the Corporation.

Permanent and Contract Staff

5. Historically, new employees of the City of London have been contractually enrolled into the LGPS, the Teachers or Police pension scheme, as appropriate, where their contract of employment is for a period of three months or more. While new scheme members will need to be provided with certain scheme details, AE requirements for new permanent staff will be implemented with relatively little impact.
6. Under AE, all existing employees of the City of London classified as eligible workers who have previously opted out of these pension schemes must be enrolled into the relevant scheme. Excluding uniformed police officers, the City of London has approximately 500 employees that are not currently members of a scheme who will meet the AE criteria at the staging date of May 2013.
7. Enrolment to a pension scheme will result in deduction of the employee's contribution from pay, which may be unpopular with those employees who consider that they have already communicated their wish to not be members of a workplace pension scheme. There will also be an increase to employer contribution for any new scheme members, impacting on departmental salary budgets, and detailed analysis to estimate the extent of this is in progress.

Casual Staff and Professional Services Firms

8. Some casual employees may be classified as eligible workers during the course of any given tax year and so AE will apply to them. The LGPS has been amended with effect from 1st October 2012 to allow casual employees to join the scheme. In addition, AE will apply to individuals operating in a Professional Services capacity where the eligible worker criteria are met and the individual could be reasonably considered an employee under employment law, that is, they could not discharge their duties via another individual employed by their professional services company. Such individuals would need to be considered as casual employees. AE may, therefore, necessitate a change to employment practices operated departmentally in this regard.
9. From the staging date, and at each subsequent pay reference period, all workers that are not in a workplace pension scheme or have not opted out of a scheme since the staging date (1st May 2013 for those under the LGPS and Teachers scheme, 1st October 2013 for the Police Scheme) must be assessed, with those workers identified as eligible being automatically enrolled at the point that they meet the criteria. Assessment of earnings is undertaken on an annualised projection of current weekly pay; the calculation for an employee submitting multiple pay claims in a single period, for example, will be based on an annualised projection of total pay received in that week rather than earnings for each week. As for permanent and contract staff, there will be financial implications for both

the employee and the employer. Again, work is in progress to estimate the likely budgetary impact.

Opting Out of the Scheme

10. Employees enrolled through AE will retain the right to opt out of the pension scheme; an opt-out period of three months applies where any deductions made from salary will be refunded to the employee and any employer contribution refunded to the employer. It should be noted that while an employee can opt out of the scheme at any time, should this occur after the opt-out period expires, a deferred pension benefit entitlement will exist and no refund will be made. In addition, AE continues to apply to employees who have opted out. Employers are required to automatically re-enrol such employees every three years from the staging date although, again, employees may choose to opt-out of the scheme.
11. While it is anticipated that some of those employees automatically enrolled to the pension scheme will choose to remain members, many are expected to opt out, as they did following contractual enrolment. The Pensions Regulator has stated that employers should advise new scheme members that the option to opt out exists, although providing further information as to how to opt out could be seen as an inducement not to join the scheme and may result in a fine from his office. A clear divide must be maintained between information produced by the employer and the pensions administrator. The provision of opt-out forms with contract documentation, for example, is now no longer permitted.

Communication to Employees

12. The implementation and on-going operation of AE will require significant input from Pensions, Corporate HR and Payroll. Work is in progress across these teams to develop a communications plan to engage directly with those employees impacted by AE. General communication with scheme members will commence in November 2012 via the pension newsletter.
13. Transitional arrangements brought in by the Department for Work and Pensions allow for employers providing a Defined Benefits scheme such as those provided by the City of London, to defer the AE effective date for existing employees until 1st October 2017. If the City of London decides to apply these transitional arrangements it would be necessary to notify the Pensions Regulator. We would communicate, by general notice to all employees, the staging date for AE and, by individual letter to those directly affected, that transitional arrangements are being invoked. All employees must be given the option to join the scheme from the staging date.

14.If transitional arrangements are applied, no employee will be disadvantaged; all directly affected employees will be notified and reminded of their right to join the relevant pension scheme and new employees from the original staging date (assessed as eligible workers) will be contractually enrolled to the relevant scheme on commencement of employment. We will have an opportunity to carry out more extensive communication about auto-enrolment with existing employees in advance of 1st October 2017.

System changes

15.Regulations require that all eligible workers be enrolled to the pension scheme, resulting in a peak of adjustments in the first payroll from the staging date. All such employees will make a contribution to the scheme which, in the case of those opting out, will require a subsequent refund and tax and National Insurance adjustment. Midland HR, the developer of iTrent, is currently working on a significant software upgrade to accommodate AE, although at present, the functionality of this is not known. This development results in a one off cost to the City of £9,000, together with a contractual increase of £9,000 to the annual software subscription. There are other software providers in the market who could provide an interface to deal with AE although, this would be at a cost in addition to the increased iTrent subscription.

16.To complete this exercise manually for all City of London Employees would be extremely resource intensive, particularly as it is anticipated that many of those individuals directly affected will opt out of the scheme at their earliest convenience. The process for the smaller number of affected uniformed police officers is deliverable within existing resources and capabilities, particularly given the later staging date of 1st October 2013.

Conclusion

17.Members are asked to note the implications of Automatic Enrolment, as outlined in this report and to accept the proposal to apply transitional arrangements to all relevant employees with the exception of uniformed police, deferring the effective date of automatic enrolment to the LGPS and Teachers Scheme for existing eligible workers until 1st October 2017. AE will be applied, in full, to Uniformed Police Officers from the later staging date of 1st October 2013.

18.Bearing in mind that we have yet to see functionality of the necessary system changes, it is felt that The City of London Corporation should apply the transitional arrangements delaying the effective date for auto enrolment of existing employees, other than police officers, until 1st October 2017 advising them of this action and that they can join the LGPS or Teachers scheme at any time should they wish to do so.

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