

Cabinet  
Council

9 October 2012  
23 October 2012

**Name of Cabinet Member:**

Cabinet Member (Strategic Finance and Resources) – Councillor Duggins

**Director Approving Submission of the report:**

Director of Customer and Workforce Services

**Ward(s) affected:**

None

**Title:**

The Application of Transition Arrangements to Pension Auto-Enrolment

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**Is this a key decision?**

Yes

The proposals within the report have financial implications for the Council in excess of £500k per annum.

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**Executive Summary:**

From October 2012 the law on workplace pensions is changing and employers are required to automatically enrol their 'eligible' workers into a workplace pension.

There are various 'staging' dates when employers must begin the automatic enrolment into their pension schemes. The City Council will begin to apply automatic enrolment from 31 March 2013.

However, the pension auto-enrolment requirements allow employers to delay auto-enrolment for eligible workers and apply a 'transition' period. In effect, this means that the Council could opt to delay auto-enrolment until 30 September 2017, subject to certain conditions.

There are significant financial benefits to the Council of applying the transition period. Were the Council to auto-enrol the eligible employees into the pension scheme in April 2013, the additional cost of the employer's pension contribution would be in the region of £3M - £4M per annum. This would add a further significant financial pressure in an already challenging financial climate.

There is also an opportunity to utilise a 'postponement' facility for all employees for whom auto-enrolment still applies (e.g. new starters). Postponement provides a short-window of delay that gives the employee more time to consider whether they want to join or opt out of the scheme. If these employees are auto-enrolled and leave the scheme in the first month, the contributions

cannot be reclaimed by either the City Council or the employee. Postponement enables the City Council and the employee to avoid these costs.

**Recommendations:**

**Cabinet**

Cabinet is requested to recommend that Council applies the transition arrangements in order to delay pension auto-enrolment until September 2017

Cabinet is also requested to recommend to Council to apply the 'postponement' option in order to ensure the avoidance of costs incurred by any new starters who decide to opt out of the pension scheme

**Council**

Council are recommended to apply the transition arrangements in order to delay pension auto-enrolment until September 2017.

Council are recommended to apply the 'postponement' option in order to ensure the avoidance of costs incurred by any new starters who decide to opt out of the pension scheme

**List of Appendices included:**

None

**Other useful background papers:**

None

**Has it been or will it be considered by Scrutiny?**

No

**Has it been or will it be considered by any other Council Committee, Advisory Panel or other body?**

No

**Will this report go to Council?**

Yes: 23 October 2012

**Report title: The Application of Transition Arrangements to Pension Auto-Enrolment**

**1. Context (or background)**

- 1.1 From October 2012 the law on workplace pensions is changing and employers will be required to automatically enrol their 'eligible' workers into a workplace pension. There are various 'staging' dates when employers must begin automatic enrolment into their pension schemes. The City Council will begin to apply automatic enrolment from 31 March 2013.
- 1.2 The pension auto-enrolment requirements allow employers to delay auto-enrolment for eligible workers and apply a 'transition' period. In effect, this means that the City Council can opt to delay auto-enrolment until 30 September 2017, subject to certain conditions.
- 1.3 There is also an opportunity to utilise 'postponement' for all employees for whom auto-enrolment still applies (e.g. new starters). Postponement provides a short-window of delay that gives the employee the more time to consider whether they want to join or opt out of the scheme. If these employees are auto-enrolled and leave the scheme after the first month, the contributions cannot be reclaimed by either the City Council or the employee. Postponement enables the City Council and the employee to avoid these costs.

**2. Options considered and recommended proposal**

- 2.1 The option of delaying auto-enrolment to September 2017 has been carefully considered and it is recommended that the transition arrangements be applied in order to avoid the additional costs (assessed to be in the region of £3M - £4M) that would otherwise fall on the City Council.
- 2.2 It is also recommended that the postponement facility is applied to ensure that costs are avoided (by both the Council and the employee) where an employee decides to leave the pension scheme during the first month.
- 2.3 There are significant financial benefits to the City Council of applying the transition arrangements. If the City Council were to auto-enrol the eligible employees into the pension scheme on 31 March 2013, the additional cost of the employer's pension contribution has been assessed to be in the region of £3M - £4M per annum. This would add a further significant financial pressure in an already challenging financial climate.
- 2.4 There are 1161 employees who are eligible to join the Local Government Pension scheme, and a further 117 employees who are eligible to join the Teachers Pension Scheme. All of these employees have previously been given the opportunity to join the appropriate pension scheme (i.e. Local Government or Teachers scheme) but have either made the decision not to join in the first place, or initially joined the relevant pension scheme but have since opted out.
- 2.5 If all the current eligible employees were brought into the pension scheme on 31 March 2013 it is possible that some employees would subsequently opt out again. This would clearly reduce the projected £3M - £4M additional cost. However, there is no guarantee or certainty about the level of further opt-out. In addition, if employees did not opt out within a one month period of their admission date, any employee or employer contributions paid would not be refunded

- 2.6 The application of the transition arrangements will not disadvantage the eligible employees as they can choose to join the pension scheme at any point. It is important to stress that many employees have already made the decision to either opt out of the pension scheme, or not to join in the first place. If the transition arrangements are not applied this will result in significant numbers of employees who have already made a specific decision about their pension arrangements (including for reasons of affordability) being placed into (or back into) the pension scheme. During the course of the transition period the City Council will encourage these employees to join (or re-join) the pension scheme but will recognise that for many it has been a carefully made decision not to be a member of the scheme.
- 2.7 The transition rules do not apply to new starters and assessment would take place on their start date alongside continuance monitoring of their pension position.

### **3. Results of consultation undertaken**

- 3.1 No consultation is required regarding the application of the transition arrangements. However, employees and trade unions will be advised and kept informed of the implications of the revised pension arrangements.

### **4. Timetable for implementing this decision**

- 4.1 Arrangements will be made to immediately commence communicating to employees regarding the changes to pension arrangements

### **5. Comments from Director of Finance and Legal Services**

- 5.1 Financial implications:

If the full provisions of auto-enrolment were to be implemented from April 2013, initial estimates are that the maximum additional financial cost of City Council employer pension contributions would be between £3m and £4m. These costs have not been factored into our existing medium term financial plans. The transition option proposed within this report will delay a significant element of this financial impact until 2017.

Even if transition is deployed, it remains likely that a higher proportion of the workforce will join the scheme as a result of the increased publicity and notifications surrounding auto-enrolment and the need to auto-enrol all new starters. It is difficult to estimate the immediate financial impact of this although it is likely that some budgetary provision already exists for employer pension contributions for some individual employees that are not in the scheme currently. Further work will be undertaken to ensure that any additional costs are factored into the budget setting process for the 2013/14 financial year although these will not be in the same order of magnitude as the costs of full implementation quoted above.

The report proposes using the postponement option for employees such as new starters for whom auto-enrolment still applies. Postponement will help the Council to avoid incurring un-reclaimable short-term pension contributions that would otherwise be paid to the pension scheme for employees who are auto-enrolled and then opt out immediately. Postponement will also help to avoid a significant amount of administrative effort in dealing with such cases.

The long-term cost of auto-enrolment will be built into the Council's medium term financial plans reflecting auto-enrolment experience elsewhere and detailed analysis of pension scheme membership in Coventry.

- 5.2 Legal implications

Changes to the automatic enrolment regime were made through the Pensions Act 2011 and final regulations were published in February 2012. The Pensions Regulator also has produced detailed guidance for employers and schemes on implementing the reforms.

## 6. Other implications

### 6.1 How will this contribute to achievement of the Council's key objectives / corporate priorities (corporate plan/scorecard) / organisational blueprint / Local Area Agreement (or Coventry Sustainable Community Strategy)?

The application of the transition arrangement for pension auto-enrolment will avoid significant additional costs falling on the City Council which would adversely impact upon the Medium Term Financial Strategy

### 6.2 How is risk being managed?

The risk associated with not applying the transition arrangements in respect of pension auto-enrolment is that further financial pressure could result. Delaying auto-enrolment to September 2017 will reduce the risk to the Medium Term Financial Strategy.

### 6.3 What is the impact on the organisation?

None

### 6.4 Equalities / EIA

The Public Sector Equality Duty requires the Council to have due regard to three specified matters in the exercise of their functions:

- a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
- b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and
- c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

The duty covers the protected characteristics are age, disability, gender reassignment, pregnancy and maternity, race, **religion or belief, sex and sexual orientation**. It also applies to marriage and civil partnership, but only in respect of the requirement to have due regard to the need to eliminate discrimination.

**For a number of years there has been automatic enrolment into the pension scheme by the Council for any employee issued with a contract of more than 3 months and who is over the age of 18 but under the age of 75. The only impact of this transition period will be upon people who have already opted out of the scheme or chosen not to join in the first instance.**

**The pension scheme and the Council regularly run briefing and publicity campaigns to encourage take up of membership of the scheme. During the transition period the Council will positively encourage such individuals to rejoin the scheme but is aware, of course, it is their personal choice as to whether to join the scheme or not. The cohort of 1278 employees who are currently not in the scheme will be further analysed and communication will be targeted accordingly.**

**In addition, all new starters will automatically be enrolled into the scheme after a period of one month but it is acknowledged they may, however, exercise personal choice to subsequently opt out as has happened in the past.**

**6.5 Implications for (or impact on) the environment**

None

**6.6 Implications for partner organisations?**

None

**Report author:**

**Name and Job title:**

Sue Iannantuoni, Assistant Director (Human Resources)

**Directorate:**

Customer and Workforce Services

**Tel and email contact:**

024 7683 3020 [sue.iannantuoni@coventry.gov.uk](mailto:sue.iannantuoni@coventry.gov.uk)

Enquiries should be directed to the above person.

<b>Contributor/approver name</b>	<b>Title</b>	<b>Directorate or organisation</b>	<b>Date doc sent out</b>	<b>Date response received or approved</b>
<b>Contributors:</b>				
Jon Venn	Senior HR Manager	CWS	27/9/12	27/9/12
Other members				
<b>Names of approvers for submission: (officers and members)</b>				
Finance: Paul Jennings	Finance Manager	Finance & legal	27/9/12	27/9/12
Legal: John Scarborough	Corporate Governance & Litigation Manager	Finance & legal	27/9/12	27/9/12
Director: Bev Messinger	Director	CWS	27/9/12	27/9/12
Members: Cllr Duggins	Cabinet Member		27/9/12	27/9/12

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