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**To:** Policy & Resources Cabinet Committee. 27<sup>th</sup> September 2012

**Subject:** Auto enrolment – Transitional delay

**Classification:** **Unrestricted**

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**Summary:** There is a need to decide the Council's approach to the introduction of auto enrolment of employees into an Occupational Pension Scheme. Endorsement of the proposed implementation approach is sought from Policy & Resources Cabinet Committee.

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## 1. INTRODUCTION

The Government aims to increase employee membership of pension schemes so that more people are financially self sufficient in later life, rather than being dependant on the State.

It is currently possible for employees to opt out of making a pension contribution and therefore receive more income each month. However this is likely to prove a short term gain rather than a longer term financial advantage since they have no, or a lower, pension as a consequence.

It is for this reason that legislation has been introduced which is intended to increase the numbers of people who are members of a pension scheme. The Pensions Act 2008, as amended in November 2011 requires employers to automatically enroll eligible workers into an Occupational Pension Scheme. KCC already complies with this requirement in relation to all new starters eligible, although there are implications for the Authority in the new responsibility to auto enroll existing staff every three years including those who have previously opted out.

It works by ensuring everyone who is eligible to join the pension scheme is included as a member and if they chose to leave, or 'opt out', they are automatically added back into the scheme every 3 years. However they still have the ability to opt out subsequently should they wish.

The legislation is primarily aimed at private sector pension schemes as membership is typically lower than for the public sector, indeed the public sector schemes largely deliver the auto enrolment principles already. KCC has two pension schemes. The Local Government Pension Scheme (LGPS) and the Teachers Pension Scheme (TPS), both of which operate an auto

enrolment practice are approved and are deemed to be qualifying schemes under Auto Enrolment regulations.

KCC has been allocated 1 March 2013 as the implementation date for Auto Enrolment for these schemes. This is the date from which all new staff must be automatically enrolled and is not possible to alter. As we already operate Auto Enrolment this part of the legislation does not present the Authority with a significant problem.

There is an option available to KCC which enables the Council to register for a 'transitional period' for existing employees. This will allow KCC to defer the implementation up to October 2017 for employees who have currently opted-out of either scheme.

## **2. IMPLICATIONS**

Since 2007, the LGPS and TPS have embodied the principle of auto-enrolment and therefore there is no need, as a matter of urgency, to auto-enroll employees who have previously opted-out.

Although the auto enrolment process is intended to increase pension scheme members and would therefore increase employer contribution costs, it is speculated by some commentators that the opposite could be the case. By raising the awareness that opt out is an option, particularly in a tough economic climate, it could result in more people choosing to leave the scheme.

Currently, therefore, the overall impact on pension scheme membership is unclear.

## **3. IMPACT**

It is very difficult to assess the impact with certainty as it is dependant upon a number of factors, not least that many people have already decided to opt out of their pension scheme. However, in the unlikely event that everyone chose to reverse this, there could be significant implications for staff costs.

### **3.1. LGPS:**

Although it is uncertain how people will ultimately choose to stay in or opt out, data for KCC non school employees in the LGPS has been used to assess potential costs. This indicates, if we assume that around half those who currently opt out of the scheme stay in after auto enrolment, the additional employer costs for pension contributions would be in the region of £250k per month. It must be emphasised that, as we already have an auto enrolment scheme, those who are not already members have consciously chosen to opt out.

### **3.2. TPS: Non-Schools**

Using the same assumptions as outlined in 3.1, the data for KCC non school employees in the TPS indicates an additional employer costs in the region of £8.5k per month.

### **3.3. TPS – Schools**

The scenario for schools is similar however the funding arrangements mean that this is made from Central Government provisions.

## **4. THE PROPOSED POSITION**

Given the considerations outlined on section 2, it is appropriate that KCC utilises the transition period provision for the following reasons:-

- Should a large proportion of employees who are not currently within a pension scheme become members then the transition period would minimize the risk of exposure to costs for the authority over this period.
- If the new 'auto-enrolment' requirements are implemented during a tough economic climate, it is also possible to result in a high opt-out rate. This will defeat the primary purpose of the legislation, which is to increase the number of people who are in an occupational pension scheme, however would not lead to increased employer contributions.
- By 2017 it is likely that a much higher number of schools will have achieved Academy status, and therefore the number of KCC employees will have been significantly reduced.
- Although the final details of likely changes to the LGPS and TPS are not yet known, we are under the impression that they are likely to be helpful. Assuming that the changes to these schemes take place at the same time as contribution increases (i.e. 2014), it would make sense for auto-enrolment to take place after they are made, rather than before.
- As the final details of the 'auto-enrolment' Regulations, are not yet available from the Government, and are not expected until the autumn of 2012, there is an argument for avoiding implementation until the detailed rules are clarified.

## **5. RECOMMENDATIONS**

Policy & Resources Cabinet Committee support the recommendations made below:-

- KCC to fulfill the statutory requirements of Auto Enrolment by assessing and informing employees of their enrolment rights in accordance with AE Regulations. This is to comply with the initial staging date on 1 March 2013.

- KCC informs the Pensions Regulator of its wish to exercise the right to defer, using the transitional arrangements, the full implementation of Auto Enrolment until October 2017 for staff that have already opted out of the LGPS or TPS.

Under the new governance arrangements, the formal decision, following consideration by the Policy and Resources Cabinet Committee, will be taken by the Leader of the County Council.

### **Background Documents**

None

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