Council, 3 December 2013

Pensions Auto Enrolment

Executive summary and recommendations

Introduction

The HCPC will be required to comply with pensions auto enrolment from 1 April 2014. The purpose of this paper is to provide an overview of the implications for the HCPC and to ask the Council to make certain decisions in relation to auto enrolment requirements.

Decision

The Council is asked to approve the recommendations on pension plan joining dates and contribution rates as recommended by the Finance and Resources Committee, and to note that further work will be done and brought back to the Council in relation to the life assurance dependent's pension set out in section 7 of the attached paper.

Resource implications

Covered in HR annual business plan.

Financial implications

Cost estimates are set out in sections 4 and 5(b) of the attached paper.

Date of paper

21 November 2013.

Council 3 December 2013

Pensions Auto Enrolment

1. Introduction

The HCPC will be required to comply with pensions auto enrolment from 1 April 2014. As a result, around 60% of HCPC employees (approximately 116) will need to be automatically enrolled into a pension scheme from that date. Advice from our pensions advisers, Barnet Waddingham, indicates that we should auto enroll employees into the existing HCPC pension plan rather than setting up any new arrangement.

Pensions legislation requires employers to consider the eligibility of all 'workers' for auto enrolment requirements. The eligibility of HCPC partners has been considered at length. Specialist legal advice has indicated that, based on the current practical and contractual arrangements, HCPC partners are not 'workers' for the purposes of auto-enrolment and can therefore be excluded from consideration.

2. Background information

Opt out rates

Once employees have been auto enrolled, they can opt out of the pension plan at any time. However they must opt out within the first month in order to receive a refund of their contributions. If they opt out at any other time the contributions will remain in their pension fund. The average opt out rate experienced by employers across all sectors so far has been 10%.

Communications with employees

A project plan covering work between now and 1 April 2014 has been developed. Most of the preparatory work involves communications with affected employees and changes to processes within the HR and Finance departments. The first round of employee briefings plus an initial mailing are planned for late November, following decisions made by the Council.

3. Proposed changes to the existing pension policy

(a) Joining date

At present, employees only become eligible to join the pension plan once they have passed the HCPC's 6 month probationary period. From 1 April 2014 the HCPC will be obliged to auto enroll employees within a month of their employment start date. As a result, the requirement to pass probation in order to join the pension scheme will be need to be removed.

Technically, it is possible to postpone auto enrolment for individuals for a period of three months. However, it is likely that the additional communications and administrative workload caused by separating the auto enrolment process from the new employment starter process will cancel out any cost advantages of postponement. In particular, employees need to be given the opportunity to opt in to the pension plan from day one if they wish to do so.

Recommended: that the pension policy is amended to allow employees to be auto enrolled within a month of their employment start date

(b) Contribution rates

At present, an employee needs to make a minimum contribution of 3% of pensionable pay in order to receive an employer's contribution from the HCPC. The current HCPC contribution rate is 7%.

Only around 40% of employees are currently members of the pension scheme. One reason for this low take up rate is likely to be affordability. In order to make auto enrolment more affordable for lower paid employees, it is proposed that contribution levels are phased in according to the timescales set out under auto enrolment legislation. These timescales are as follows:

Time Period	Employee Contribution	Employer Contribution
1 April 2014 – 30 Sept 2017	1%	2%
1 Oct 2017 – 30 Sept 2018	2%	4%
1 Oct 2018 onwards	3%	7%

Under this proposal all new and non-pensioned employees would be auto-enrolled with a 1% employee contribution level and would receive an employer's contribution of 2% from the HCPC. These contribution levels would increase to 3% and 7% by 1 October 2018. However, it would be made very clear to affected employees that the choice to change to the current 3% employee contribution and 7% employer contribution would be available to them at any time

Phasing in of contribution levels could also potentially spread the costs of auto-enrolment for the HCPC. Examples of cost scenarios are set out in section 4 below.

4. Costs of auto enrolment

If the current contribution structure of a 3% employee and 7% employer contribution was applied for all auto-enrolled employees, the estimated costs*, calculated by the HCPC's pension advisers Barnet Waddingham, would be as set out in Table 1 below.

Table 1: Potential costs* to HCPC for 7% employer contribution for new members (employee contributes 3%)

Period	Current members (7%)	HCPC contribution for new members	Costs for new members	Total costs
Year to 1 April 2015	£333,267	7%	£214,569	£547,836
Year to 1 April 2016	£289,487	7%	£245,115	£534,602
Year to 1 April 2017	£252,216	7%	£273,183	£525,399
Year to 1 April 2018	£219,743	7%	£299,128	£518,817
Year to 1 April 2019	£191,451	7%	£323,260	£514,711

Estimated costs for phasing in contributions are set out in **Table 2** below. This sets out the best case scenario in terms of costs to the HCPC, i.e. that all auto-enrolled employees stick to the phased contribution plan and do not choose to change to the 3% and 7% contribution structure.

Table 2: Potential costs* for phasing in of contribution rates for new members

Period	Current members (7%)	HCPC contribution for new members	Cost for new members	Total costs
Year to 1 April 2015	£333,267	2%	£61,305	£394,572
Year to 1 April 2016	£289,487	2%	£70,033	£359,520
Year to 1 April 2017	£252,216	2%	£78,052	£330,268
Year to 1 April 2018	£219,743	2% then 4% from Oct 2017	£129,093	£348,836
Year to 1 April 2019	£191,451	4% then 7% from Oct 2018	£255,244	£446,695

***Recommended*:** that the pension plan rules are amended so that employees are auto enrolled on the basis of the phased contribution plan set out above, but are given the choice to change to the HCPC's current contribution rates (3% employee and 7% employer) at any time.

*Assumptions used by Barnet Waddingham to estimate potential contribution costs:

- Figures are based on employee data as at 14 June 2013

- All estimated costs are shown in today's terms, i.e. no allowance has been made for inflation

- An opt-out rate of 10% has been assumed and included in the figures

- Current pay will increase at a rate of 2.5% per annum with effect from 1 January each year, starting from 1 January 2014

- Employee turnover: 15%

5. Group life assurance policy

Pensions auto enrolment will also lead to increased costs for the HCPC in providing life assurance benefits. The HCPC's Group Life Assurance Scheme is separate to the pension plan, but any employee who joins the pension plan is automatically admitted to the life assurance scheme. The life assurance scheme currently provides the following benefits if an employee dies while in the HCPC's service:

- a lump sum benefit of 3.5 times salary
- an annual dependent's pension of one third of annual salary

(a) Death in service lump sum

For the current pension scheme membership of around 76 employees, the annual premium to insure the lump sum benefit of 3.5 times annual salary is £13,000 p.a. According to Barnett Waddingham, this premium will increase as a result of gaining more pension scheme members through auto enrolment, but not disproportionately so. A reasonable estimate for the premium might be around £26,000 p.a. if the HCPC has around 188 pension scheme members from 1 April 2014 onwards.

For new and auto enrolled employees, the lump sum is likely to continue to be a relatively low cost benefit which is valued by employees and so no recommendations are being made to review it.

(b) Death in service dependent's pension

The current premium to cover the death in service dependent's pension for 76 employees is £19,500. Our advisers have indicated that based on current trends, the premium cost may increase by as much as 100% in the next financial year.

For the current pension scheme membership of around 76, the estimated premium would be likely to rise to around £40,000 per year. For the increased auto enrolment population, the cost of providing a dependent's pension for employees who die in service is estimated be at least £77,000 per year. A summary of these estimated figures is provided below.

Table 3

Life Assurance Benefit	**Current life assurance annual premium**	**Estimated annual premium after auto-enrolment**
Lump sum of 3.5 times annual salary	£13,000	£26,000
Dependent's pension of 1/3 of annual salary	£19,500	£77,000
Total	**£32,000**	**£103,000**

Another factor that Barnett Waddingham have highlighted is that a number of insurers have recently withdrawn from the market to provide death in service dependents pensions. The few insurers that are still providing terms have increased their rates considerably and it seems possible that premiums will continue to rise in future years.

Group life assurance benefits for employees who are already in the pension scheme need to remain as they are for contractual reasons. However there is likely to be scope to alter benefits for new and auto enrolled members if the Council thought this might be necessary. The dependents pension for employees who die in service is becoming an increasingly expensive benefit to insure. It therefore seems appropriate to draw this increase in costs to the Council's attention, and to make the Council aware of possible options if the costs concern them.

Barnett Waddingham have asked the HCPC to note that the figures provided and trends identified for group life assurance are for information only and the situation for specific schemes may vary.

6. Options for the death in service dependent's pension

Option 1 would be to withdraw the death in service dependent's pension for new and auto-enrolled employees from March 2014 onwards and not replace it with any other benefit. This option is not recommended as it would result in a significant reduction in employee benefits and might have a negative impact on morale and engagement.

Option 2 would be for the Executive to explore the costs of removing the dependents pension for new and auto-enrolled employees and replacing it with an additional lump sum. Initial estimates from Barnett Waddingham suggest that an additional lump sum of 4 or even 6 times annual salary may cost significantly less to insure than the current dependent's pension. We already have an estimate of around £26,000 to provide a lump sum of 3.5 times annual salary for around 190 employees in table 3.

This additional lump sum could then be used to purchase an annuity for a dependent's pension. If this scenario was adopted then current non-pensioned employees would be informed of the impending change and would be given the opportunity to join the pension scheme and to receive the current life assurance benefits prior to 1 April 2014.

Option 3 would be to retain the current benefit structure of a lump sum of 3.5 times annual salary plus a dependent's pension for new and auto-enrolled employees. This would be the Executive's recommended course of action, as it would maintain current levels of employee benefits. Although the costs of keeping this benefit structure in place may increase, they are still likely to make up a very small proportion of the overall salary budget (currently around £7m for 2013/14) in the foreseeable future.

7. Decision

The Council is requested to:

- approve the recommendation in section 3(a) to amend the pension policy to enable employees to be auto enrolled within a month of their employment start date

- approve the recommendation to phase in contribution rates for auto-enrolled employees over the time periods as set out in section 3(b), but to allow employees the choice to change to the current contribution rates of 3% for the employee and 7% for the employer at any time.

- note the three options for the Group Life Assurance dependent's pension and that further work to be carried out under option 2 in advance of a decision being made

Date of paper

21 November 2013