

SCOTTISH POLICE
AUTHORITY

Meeting	Public SPA Board Meeting
Date	22 March 2017
Location	Stirling Court Hotel, Stirling
Title of Paper	Pensions – Auto Enrolment
Item Number	10
Presented By	James Gray, Interim Chief Financial Officer
Recommendation to Members	For Approval
Appendix Attached:	Yes

PURPOSE

The purpose of this paper is to provide information on Auto Enrolment (AE) employer responsibilities, costs and communications for Police officers and SPA/PSoS staff.

This paper is presented in line with Scottish Police Authority Governance Framework.

The paper is submitted For Approval.

1. BACKGROUND

- 1.1 The Pensions Act 2008 and associated regulations set out the legal requirements for Automatic Enrolment to pension schemes. The law on duties and safeguards commenced in July 2012 and employers were allocated a date from which their duties applied – this is known as the “*staging date*”.
- 1.2 The Pensions Act 2014 introduced “exceptions” from the employer’s duties in specific circumstances, as detailed at point 2.4.
- 1.3 SPA’s staging date for AE is **1 May 2017**. It was postponed to that date (from dates in 2013), due to being classed as a new organisation, following significant organisational change and the formation of SPA/Police Scotland.
- 1.4 From the staging date it is the employer’s duty to auto-enrol all “eligible jobholders” into the pension scheme(s).
- 1.5 The current pension scheme(s) open for membership are:
 - For officers - the Police Pension Scheme (Scotland) 2015
 - For SPA/PSoS staff - the Local Government Pension Scheme (Scotland) 2015. (Currently staff are members of one of eight Local Government Pension Scheme funds nationwide).
- 1.6 New officers and staff joining SPA/PSoS are admitted to a pension scheme on their first day of service, as defined in the relevant pension scheme(s) regulations. This practice will continue and fulfils the employer’s AE duties for new joiners from 1 May 2017.
- 1.7 The main impact of AE is for those members who have previously opted out of the pension scheme(s). Such officers and staff must be assessed for AE on 1 May 2017, as detailed at point 2 below.
- 1.8 Cyclical re-enrolment is required every three years from the initial staging date per 1.3 above – **1 May 2020**.
- 1.9 In order to facilitate the AE process, an AE Working Group was formed with internal stakeholders to progress all matters relating to AE by the staging date of 1 May 2017, led by the Police Scotland Pensions team with support from The Pensions Regulator.

1.10 The Police Scotland Pensions team has engaged with both staff associations and trade unions who are content with the proposed option to address AE, and it has been signed off by Police Scotland's Corporate Finance & Investment Board. Both the Finance and People Committee of the SPA have considered this report prior to presentation to the SPA Board.

2. FURTHER DETAIL ON THE REPORT TOPIC

2.1 "Eligible jobholders" as defined in legislation, are those who are aged 22 to State Pension Age and earn more than £10,000 (actual earnings as opposed to full time equivalent), must be automatically enrolled.

2.2 Current practice within SPA is all new officers and SPA/PSoS staff are contractually enrolled regardless of age and salary.

2.3 Opt out statistics (as at 30 September 2016) show that there are 8.5% of officers and 7.5% of staff who have previously opted out of their pension schemes.

2.4 Exceptions

2.4.1 There is not a mandatory requirement to auto-enrol any jobholders who opted out in the previous 12 months prior to the staging date. The employer **can** choose to auto-enrol this group. If the employer chooses not to auto-enrol them, the employer should leave them until the cyclical re-enrolment date.

2.4.2 Those jobholders who have opted out more than 12 months before the staging date should **not** be automatically enrolled at the staging date. The employer should leave them until the cyclical re-enrolment date.

2.4.3 There is no need to enrol members who have opted out and have given their notice (whether on resignation or retirement).

2.4.4 There is no need to enrol members who have opted out and have Lifetime Allowance protections (Primary, Enhanced, Fixed or Individual). This may affect a small number of senior members.

2.5 Options for those who have opted out

2.5.1 Option 1

To comply with the minimum requirements to fulfil the employer's AE responsibilities, there is no need to auto-enrol any jobholders on 1 May 2017, who have previously elected to opt out of the pension scheme(s).

2.5.2 Option 2

The employer **can** choose to auto-enrol those jobholders who opted out in the 12 months prior to 1 May 2017.

2.5.3 Option 3

To encourage the uptake of pension scheme membership, the employer may wish to consider whether to go beyond the AE requirements to pursue if there is an option to also enrol those jobholders who opted out more than 12 months prior to 1 May 2017, in addition to option 2. (This would need to be done under contractual enrolment and requires legal advice on whether it would comply with employment law legislation).

2.6 Next Steps

It is recommended that Option 1 above is implemented for both police officers and SPA/PSoS staff due to the following:

- Complies with the AE legislative employer requirements.
- Ensures all those who have opted out of the scheme at the staging date are treated equally regardless of when they opted out.
- Reduces risk of causing potential financial hardship for jobholders if they have pension contributions automatically deducted from their salary, if they have chosen to opt out of the pension scheme(s).
- Reduces risk of complaints from jobholders who have opted out and do not want to be enrolled into the pension scheme(s) again.
- Minimises administrative burden, payroll system development and additional resource requirements of automatically enrolling jobholders who may then wish to then opt out again.
- Reduces financial implications of mandatory additional employer contributions due from the staging date.

2.7 Communications

- 2.7.1 A communications plan is in place to comply with the employer requirements of AE at the staging date. This includes intranet messaging and individual communications to **all** officers and staff to inform about the auto-enrolment process and highlight the benefits of joining a pension scheme. Such communications will be in accordance with The Pensions Regulator's guidance and timescales. Engagement is taking place with trade unions, staff associations and external stakeholders e.g. pension scheme administrators
- 2.7.2 From January 2017, there are staged intranet messages providing general information about AE, FAQs, reminders, briefing notes, sign-posting and contact details. The first intranet banner box was published on 18 January 2017.
- 2.7.3 An individual communication is planned to be emailed to all officers and SPA/PSoS staff (23,123 individuals per current statistics) at the end of March/beginning of April 2017, advising about the auto-enrolment requirements, timescales, "opt in" options, deadlines and a link to The Pensions Regulator website.
- 2.7.4 The employer must notify those jobholders who have opted out prior to the staging date of their right to "opt in" to the pension scheme(s). This is captured in the AE communications plan.
- 2.7.5 A future communications plan will be developed to notify those eligible jobholders who have currently opted out of the requirement to auto enrol them, in advance of the cyclical re-enrolment date on 1st May 2020.

3. **FINANCIAL IMPLICATIONS**

- 3.1 There are financial implications in this report. Employer costs will increase if there is a decision made to automatically enrol or contractually enrol officers and/or SPA/PSoS staff back into the pension scheme(s).
- 3.2 The financial costs from 2017/18 are set out in Appendix A.
- 3.3 Option 1 does not generate any additional employer costs, however the communications strategy associated with this option may lead to an uptake in membership, which in turn will increase employer costs. A 100% uptake is unlikely given the jobholders have elected to opt out of the scheme and already have a right to re-join at any

time, however the maximum costs on this basis are those outlined under Option 3 in Appendix A.

- 3.4 As per point 1.8, further financial costs will be incurred in 2020/21 at the cyclical re-enrolment date and at three yearly intervals thereafter. These costs will depend on the number of members opted out of the pension schemes at that time however are likely to be broadly comparable with 2017/18 costs based on current estimates.
- 3.5 The costs shown in Appendix A for police officers form part of the police pensions grant funding received from Scottish Government. Budget provision has been made in 2017/18 for the costs shown in Appendix A for SPA/PSoS staff.
- 3.6 Under the Pensions Act 2008 and associated legislation, The Pensions Regulator can impose the maximum fine of £50,000 on employers for non-compliance within their determined deadlines. If the failure to comply continues, the Pension Regulator can also impose the maximum escalating penalty of £10,000 per day.

4. PERSONNEL IMPLICATIONS

- 4.1 There are personnel implications associated with this paper.
- 4.2 Pensions contributions **must** be deducted from any members auto-enrolled from 1 May 2017 and will require to be refunded to the member if they subsequently opt out again. A member has a three-month period, under the pension scheme(s) regulations, after auto-enrolment during which they may choose to opt out.
- 4.3 A typical one-month deduction from salary will be as follows:
- for a Police Constable earning £24,204 - £325
 - for an average member of police staff earning £23,500 - £140.
- 4.4 Staff Associations and Trade Union representatives have been updated and are content with the proposed recommendation

5. LEGAL IMPLICATIONS

- 5.1 There are further legal implications in this paper to those listed above.

5.2 A compulsory Declaration of Compliance must be completed and submitted to The Pensions Regulator by 2 October 2017 stating the employer's compliance with the legal duties.

6. REPUTATIONAL IMPLICATIONS

6.1 There are reputational implications associated with this paper.

6.2 SPA are one of the few larger UK employers with a later staging date, because of postponement. There is a risk of reputational damage if the employer does not fully comply with their responsibilities.

7. SOCIAL IMPLICATIONS

7.1 There are no social implications associated with this paper.

8. COMMUNITY IMPACT

8.1 There are no community implications associated with this paper.

9. EQUALITIES IMPLICATIONS

9.1 There are no equality implications associated with this paper.

10. ENVIRONMENTAL IMPLICATIONS

10.1 There are no environmental implications associated with this paper.

RECOMMENDATIONS

Members are requested to:

- Note the information contained within this report.
- Consider the options set out under point 2.5, and approve Option 1 as the basis for implementation of the employer's Auto Enrolment (AE) responsibilities.

APPENDIX A

Immediate financial implications vary depending of the Option selected for those who have opted out, as in point 2.5 above, and are set out below:

Option 1

There will be no financial implications on employer pension costs as a result of implementing auto-enrolment Option 1.

If a decision is made to implement Option 2 or 3, employer pension costs will increase for those jobholders enrolled into the pension scheme(s) at the staging date.

In order to calculate the costs associated with AE, a number of factors have been considered;

- Costs are based on a 100% uptake of those being enrolled will remain in the scheme, which is unlikely however provides a maximum cost indication for budgetary planning purposes;
- LGPS employer contribution rates differ between each legacy scheme;
- Employer contributions for police officers is 23.1%;
- Any administration and payroll system development costs are one off payments and are excluded from these employer pension costs.

Option 2

It is estimated that 29% of officers and 9% of SPA/PSoS staff, have opted out in the 12 months prior to the staging date, reducing the maximum cost shown below to £3.8m p.a. for officers and £178,000 p.a. for Police/SPA staff, if Option 2 is elected.

Option 3

Police Officers

Based on a current estimate of 1,643 officers who have opted out of their pension scheme, an additional employer's pension contribution of £13m p.a. will be due from 1 May 2017. This extra cost will be met from the Police pensions grant funding received from Scottish Government.

SPA/PSoS Staff

NOT PROTECTIVELY MARKED

Based on a current estimate of 442 SPA/PSoS staff who had opted out of their pension scheme, an additional employer's pension contribution of £2m p.a. will be due from 1 May 2017.