City of Westminster

Pension Board

Date:	**29 January 2019**
Classification:	**General Release**
Title:	**Integrated Business Centre migration update and changes to Employee LGPS Pensions Contribution Bandings Calculations**
Wards Affected:	**All**
Policy Context:	**Effective control over Council Activities**
Financial Summary:	**There will be financial implications on the fund related to how employee contribution bandings are calculated and the effect of auto-enrolment for some employees where opt out dates are not held.**
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1. EXECUTIVE SUMMARY

1.1 This report provides an update of any financial impacts to the Pension Fund resulting from changes to LGPS employee pensions contributions, arising from the move to the Hampshire County Council Integrated Business Centre (IBC).

1.2 The two impacts to the fund will be the changes to how employee contribution bandings are calculated and the effect of auto-enrolment for some employees where opt out dates are not held, however this is unlikely to impact a significant number of members.

2. RECOMMENDATIONS

2.1 The Board is recommended to note the update.

3 CHANGES TO EMPLOYEE CONTRIBUTION RATES

3.1 Employee contributions are defined in the LGPS regulations and the contribution framework does not vary between Funds. The total salary of an employee, including one off payments and overtime, is used to calculate how much each employee should be contributing. This is shown in the table below:

If your actual pensionable pay is:	You pay a contribution rate of:
Up to £14,100	5.5%
£14,101 to £22,000	5.8%
£22,001 to £35,700	6.5%
£35,701 to £45,200	6.8%
£45,201 to £63,100	8.5%
£63,101 to £89,400	9.9%
£89,401 to £105,200	10.5%
£105,201 to £157,800	11.4%
£157,801 or more	12.5%

3.2 Whilst the values above are fixed, it is up to individual administering authorities to calculate what they deem an employee's pensionable pay to be. Currently, the system that is in place with BT determines annual pay on a monthly basis, calculated by grossing up one month's salary twelve times.

3.3 For example, an employee who earns a flat £2,000 per month will be calculated to have an annual salary of £24,000, placing them in the 6.5% banding which will be applied to their salary each month, costing the individual £130 per month. The problem with this is the calculation does not take into account one off payments.

3.4 If we take the example of the same employee paid £2,000 per month but they receive a one off overtime payment of an additional £2,000 in May, the calculation will deem their annual salary to be £48,000 ((£2,000 + £2,000) x 12). Despite the fact the employee only earns £26,000 for the year and should pay the 6.5% contribution rate, in the month of May only they will be charged 8.5%, thus incurring an effective overpayment of £80.

3.5 The IBC solution works in a different way so that it takes base salary for the year plus a rolling twelve month look at any one off payments to determine the contribution banding. In the example above, the employee would pay 6.5% for the year.

3.6 Although this means many people may pay less contributions, it could mean that others pay more. If we take another example of an individual earning £3,500 per month, they have a base salary of £42,000 and will pay 6.8% contributions. If they receive one off overtime / bonus payment in the month of May of £4,000 the IBC solution will calculate their salary as being £46,000 and the individual will pay 8.5% on their entire salary for the next twelve months - £3,910 per annum.

3.7 If the same individual had been paid under the current BT payroll, in the month of May they would have their salary grossed up to £90,000 and pay 10.5% (£787.50) but would only pay 6.8% for the remainder of the year (£2,618). This individual would pay a total of £3,405.50, which means they are paying £504.50 more under the IBC solution.

3.8 Clearly there will be winners and losers from the change in system, but the new method is a fairer, more equitable solution for both the Fund and Members as it more effectively calculates annual salary for pensions banding purposes.

4 AUTO ENROLMENT

4.1 Members are automatically enrolled onto the pension scheme when they commence employment, assuming they meet the minimum salary criteria and are between the age of 22 and the state pension age.

4.2 Employees have the right to opt out of the scheme if they wish, by signing an opt out form.

4.3 A small number of employees have opted out of the scheme (around 200 in total across the Tri-Borough) where their opt out dates and forms are not held in Agresso. These individuals will be auto enrolled when their payroll data is transferred to the new Hampshire payroll system, meaning they will restart paying pension contributions.

4.4 These employees will need to opt out again if they still wish to remain out of the fund. All employees who will be auto enrolled under the migration will be notified accordingly.

5 FINANCIAL IMPACTS

5.1 The financial impact to the Fund of changing the contributions calculation method is expected to be largely negligible as some employees will pay less in contributions and others will pay more. It is very difficult to estimate whether net contributions will go up or down due to the complexities surrounding this.

5.2 The financial impact to the Fund of the auto enrolment will potentially mean a negligible gain if the newly opted in individuals continue to pay into the Fund, but if the affected members all opt out, then there will be no impact.

If you have any questions about this report, or wish to inspect one of the background papers, please contact the report author:

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BACKGROUND PAPERS: None

APPENDICES:

Appendix 1: Draft Tri-Borough Payroll Pensions Analysis Report