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BUSINESS CASE FOR PENSIONS

THE BUSINESS CASE FOR PRIVATE SECTOR WORKPLACE PENSIONS

FOREWORD

Pensions have rarely been out of the news for the last six months, with reports of pension funds hit by the economic crisis and high-profile pension closures caused by significant pension deficits. In addition, the Government has announced plans for automatically enrolling employees either into an existing workplace pension scheme or into the proposed personal account to which both the employee and employer must contribute, unless the employee opts out, from 2012. It is clear that pension schemes are facing unprecedented challenges, including the shift from defined benefit (DB) to defined contribution (DC) schemes and the general difficulty of engaging employees in retirement provision.

This environment raises the question of whether there is a business case for workplace pension schemes and – if so – what the future of company pension schemes looks like. The Chartered Institute of Personnel and Development (CIPD) and BlackRock have undertaken a qualitative and quantitative research programme to explore this issue and discuss the future of workplace pension schemes. Conducted between March and July 2009, through a survey comprising interviews with 61 employers and 840 employees, the research has implications for employers (in particular, the HR profession), employees, the pensions industry and the Government. For more information on the research, please see the appendix.

The answer to the central question of the research programme – 'Is there a business case for employee pensions?' – is a tentative 'yes'. From mid SME level (small and medium-sized enterprises, or those with an annual turnover in excess of £1 million) upwards, most employers believe that pensions are an integral part of the benefits package and that not offering a pension with employer contributions can put them at a competitive disadvantage.

One large corporate said:

> *'We want to be an employer of choice, and therefore we recognise the need to have a good pension scheme.'* [1]

And even those companies that do not see any value in workplace pensions – such as the respondent from a small building service employer that argued:

> *'The working man doesn't want to do a pension. He's paying in his National Insurance and he wants that pension at the end of it.'* [2]

– will have to make some kind of pension provision available to their employees when the new Pensions Act comes into force in 2012. From an employee perspective, however, as many as one third of the people in our research do not rely on their company pension scheme to fund their retirement (opting to use other savings and investments vehicles, either totally or in addition), so there is a clear disparity between the employer and employee view on pensions as a saving vehicle.

But the research also uncovers wide-ranging concerns about the current state of pension provision in the UK. One of the main challenges highlighted by the research is that of engaging employees – who, with the advent of DC, bear the main responsibility for their retirement provision – in saving for retirement.

This research programme acknowledges existing research sources published in recent months and, using the statistical base as a context, has sought to explore the issues and the way forward at a more qualitative

[1] Major corporate, 70,000 employees, closed DB scheme, current DC scheme with employer contributions
[2] Building services, 5–10 employees, under £1 million: no company pension scheme in place

level. In doing so, it draws out the key issues being confronted by businesses in their pension scheme delivery, and views on what needs to be done to improve the structure of retirement planning by those responsible for designing, implementing and administering workplace pension schemes (that is, HR, rewards and benefits, pensions and financial management) across British private sector business today.

We would like to thank all companies that contributed to this research programme, with particular thanks to those who have given permission for their comments to be attributed.

EXECUTIVE SUMMARY

This research programme set out to identify the business case for offering workplace pension schemes now, and in the future.

The research comprised:

- a review of the existing research information published over the past year (Appendix 1 lists the sources referred to)
- 61 telephone interviews with HR and pensions specialists in a cross-section of businesses, from small SMEs to FTSE 250 companies, to understand their practices and policies in relation to the provision of a workplace pension scheme, the drivers for review and change and their perceptions of the future in relation to pension provision
- an online survey of 840 private sector employees to understand their attitudes towards company pension schemes within the context of their retirement planning.

It is clear that businesses across the board do not relate to the provision of pension schemes in terms of a quantifiable, financially accountable ‘business case’. Pension schemes are introduced either to satisfy compliance requirements, which is most typical of the smallest SMEs (small and medium-sized enterprises), or as an employee benefit (although the perceived value among employees is dependent on the employer’s contribution level and their ability to ‘sell in’ the scheme to employees).

Quite simply, the business case for pensions relates to recruitment and retention: it is evaluated within the context of HR rather than in financially measurable terms. Companies can, and do, measure the relative appeal and cost-effectiveness of the various component elements of the benefits package by means of employee satisfaction surveys and recruitment and retention statistics (for example the number of first choice candidates who turn down a job offer). However, it is extremely difficult, if not practically impossible, to extricate the pension scheme from other elements of the total reward offer (for example salary, flexible working, quality of management and so on) and thereby measure its role, impact and absolute value on employee recruitment, retention and engagement.

Our findings show that the relative importance of pensions per se as a recruitment and retention ‘tactic’ differs by size, sector and corporate ethic. Furthermore, and most significantly, pension schemes are increasingly being seen as an integral element of employee reward packages and therefore cannot be viewed in isolation from these.

Nonetheless, there is an understanding that workplace pension schemes have a beneficial impact on business performance (albeit too indirectly to measure directly). This is best illustrated by a belief that not offering a pension scheme would be detrimental to the recruitment of quality, first choice employees and subsequent retention of a committed workforce.

Our research finds that pensions are being increasingly viewed as an element of an overall flexible benefits package, and the findings suggest that this is both necessary and inevitable as employers seek to develop packages that evolve with employees’ changing lifestyle needs. (Section 5.4 highlights employers’ visions of the future).

The priority that employers place on ‘duty of care’ towards their employees will create a greater demand for the availability of financial options to offer to potential and existing employees under a ‘life-planning’ umbrella. The pension product will always play a part in this, but will need to ‘pay its way’ within a package of financial and non-financial benefits. Other published surveys have shown that employers measure the value/cost-effectiveness of elements within their reward packages by the level of take-up and this applies also to pension schemes to a certain extent – although, as every piece of statistical evidence shows, 'take-up' of pension schemes does not necessarily correlate to adequacy of provision for the future.

THE FUTURE OF WORKPLACE PENSIONS

Among employers, our research finds that there is a general consensus about the basic tenets that will dictate the future of workplace pensions:

- At present defined benefit schemes are unappealing for many employers.
- The responsibility for adequacy of retirement planning belongs to the employee.
- The employer is best placed to ensure that the employee has every opportunity to be informed and advised.
- Although (defined contribution) pension schemes 'work' for the employer, typically they do not engage the employee.
- The British employee has, typically, lost faith in the pension system but it remains, by default, the most familiar and accepted means of saving for retirement.

Our research indicates that employees feel there is an in-built social injustice whereby one's National Insurance contributions are paying for the pensions of others rather than oneself. Similarly, the traditional concept of 'effort and reward' is undermined by the benefits system (which is perceived to reward those who have not made the effort to contribute towards their own retirement).

Moving forward, our research suggests the watchwords for HR, employees and the Government are:

Education

Employees need much better education about the need to plan, the levels of savings necessary and options available to them from an early age. This should be an ongoing government initiative (respondents equated the level of campaigning to 'smoking kills', 'drink driving' and so on). Education obviously carries over into the workplace; HR departments need greater support to feel more confident about discussing pensions with employees in terms of what they should/could be saying.

Engagement

Employees need to be encouraged to engage with their responsibility for funding retirement. Whether or not the proposed automatic pension enrolment and the new personal savings accounts will be successful in this objective is yet to be seen; while the principle of encouraging engagement is applauded, none of the employers in our research are anticipating the advent of new legislation with any expectation that it will solve the problem completely.

Choice

Greater choice of:

- savings/investment vehicles that are appropriate to needs and different life stages
- low impact (for the employer) means of saving (for example salary sacrifice, 'Save More Tomorrow'.

Flexibility

Flexibility is needed particularly in relation to the means of liquidating the pension on retirement; the mainstream pension drawdown mechanism (25% tax-free lump sum with ongoing annuity investment) is often regarded as a disincentive to long-term saving by employees (because of the possibility of never reaping the full benefit of the investment) and employers empathise with this. Flexibility is also needed in relation to how different savings/ investments could work together.

Simplicity

It has to be simple. Our research finds that pensions are fraught with complexities and jargon that create suspicion and mystique. Simplicity = transparency of product and communication.

Control

Our research shows that people want to feel in control of their choices, as well as how and when money is saved; for employees, one of the perceived drawbacks of a pension is that the end result is dictated by forces beyond their control (for example pension provider failings, legislative changes, and so on). One of the perceived pitfalls of the new personal savings account is the lack of control that employees will have over their savings.

DETAILED FINDINGS

INTRODUCTION

The first section of this report ('The current pension scene') gives an overview of the most recent published data, which establishes the context for the question: is there a business case for workplace pension schemes and – if so – what does the future of company pension schemes look like?

The New Pensions Act due to become law in 2012 sees the introduction of the auto-enrolment of (most) employees into either (a) a new or existing company pension scheme that qualifies by virtue of its employer contribution levels or (b) a new personal account saving mechanism that will function on the basis of statutory minimum employer/employee contribution levels. Employees will still retain the right to opt out.

Whether or not this will have the desired effect of increasing employee take-up, whetting savings appetite and reducing confusion among working individuals remains to be seen. The charge on employers to introduce, communicate and administer yet another retirement vehicle is likely to be handled in different ways and with varying levels of commitment. This report discusses the likely impact of the new system from both the view of employers and employees, through interviews conducted specifically for this research.

The research programme, undertaken between March and July 2009, builds on existing market intelligence and investigates the health of the workplace pensions marketplace within the context of current economic conditions and a shorter lead time to the introduction of auto-enrolment from 2012. It does not attempt to replicate the strong statistical evidence base of recent surveys, but uses these to support the more qualitative perspective delivered here.

THE CURRENT PENSION SCENE

This section is based on existing published statistical evidence: sources are acknowledged in Appendix 1.

The implications of the 2012 legislation described in Section 2.2 is of particular importance to employers.

DEFINITIONS

Currently, companies employing five or more employees are required by law to offer pension arrangements of one kind or another to their employees.

Company pension schemes have traditionally comprised either:

Defined benefit (DB) schemes*: more commonly known as final salary schemes (or superannuation), these schemes were the bedrock of good, safe, traditionally accepted pension schemes through which the employee could be assured of a quantifiable proportion of their salary after working for the qualifying number of years. While these offered peace of mind (and, no doubt, a degree of loyalty) for the employee, these were extremely expensive for employers to deliver in a financial market of worsening performance levels and a general socio-economic improvement in longevity post-retirement.

And so, DB schemes have seen a rapid decline over the past five years; companies have either closed the doors to new employees (while continuing to manage out existing employees) or completely switched schemes to reduce their costs and liabilities. In 2007, IDS statistics showed that 62% of DB schemes were closed to new entrants: of those still open (estimated to be 2,240 schemes by the ONS Occupational Schemes Survey) three-quarters expected to make some changes, either to switch new employees to occupational or contract-based DC schemes, or to amend their schemes to career average or risk-sharing schemes.

Defined contribution (DC) schemes*: the final retirement benefit depends upon the level of contributions made and the growth of the fund. From an employer perspective, DC schemes do not carry any risk – they do not guarantee any specific retirement benefit and no costs over and above the agreed contribution levels/administration costs are involved. However, the employee bears the risk of investment performance and adequacy of contributions; such schemes may be trust-based or contract-based.

Trust-based schemes are established by employers to provide benefits for their employees and are managed by trustees who are responsible for the investment strategy, administration and, often, communication with employees. There is a three-way relationship between the employer, the trustee and the employee.

Contract schemes (group personal pensions and stakeholder) are offered by insurance companies and financial providers, but the relationship is typically between the employee (member) and the provider. The employer’s role will only be to introduce the employee to the scheme and (probably) administer the payroll deductions. Contract schemes are therefore more simple (with no trustee involvement, outside the regulatory requirements of pension regulation) and cheaper for employers to offer.

DC schemes have become the predominant company pension scheme for new employees in the private sector.

**The IDS Pensions Handbook gives detailed explanations of the range of pension schemes which exist for further reference.*

CURRENT ISSUES

The next major sea change in the pension arena will be the advent of auto-enrolment and personal accounts. These were first recommended by the Pensions Commission in 2005 and were subsequently embodied in the Pensions Act 2007, which established the Personal Accounts Delivery Authority (PADA) to set up the scheme in readiness for the new Pensions Act, due to become law in 2012. All employers will have to default employees earning more than £5,035 (in 2006–07 terms) who are aged between 22 and the state pension age into a private pension scheme that meets certain minimum standards.

Although the concept of auto-enrolment (into either a new savings vehicle or existing qualifying scheme) may be acknowledged as a good idea in principle, there are already warning bells that some employers may 'level down' their existing contributions to fund the cost of complying with the new legislation and/or review their contribution strategy in relation to existing members and new (post-2012) members, or even close existing schemes.

Of course, the major unknown is whether or not the introduction of auto-enrolment will encourage and enable employees to plan for their retirement more effectively than at present.

Certainly, a recently published report from the Institute of Fiscal Studies suggests (based on 2005 statistics) some 3.7 million employees neither contributed to a private pension nor were given the opportunity to join a company scheme. Of these, more than half were low earners (less than £14,000 p.a.) and more than half had no net savings. So, even though these may be recruited into personal accounts, the incremental ability to save will be small and money diverted into savings may increase personal debt. Furthermore, because of the infrequent nature of saving into existing personal pensions among the lower earners, it is likely that the introduction of personal accounts will cannibalise future 'occasional' payments into any pre-existing personal pensions.

Under the terms of the 2012 new Pensions Act:

- any job-holder (regardless of company size) between the age of 22 and state pension age with 'qualifying earnings' must be enrolled either into a personal account or a qualifying scheme sponsored by their employer
- a job-holder may decline to be auto-enrolled but the process will be repeated at three-yearly intervals
- for those employees auto-enrolled into personal accounts, employers must make a contribution worth at least 3% of earnings
- employees will receive tax benefit at basic rate of tax relief on employee contributions.

If an employer already offers a **qualifying scheme**, they will be exempt from offering personal accounts. To qualify, new employees must be auto-enrolled into either:

- a defined benefit scheme, or
- a defined contribution scheme that has a minimum 8% contribution (of which at least 3% is contributed by the employer).

So, whatever the scheme in place, employers will be required to contribute at least 3% of employee earnings into a company-sponsored scheme.

The implementation of the proposed personal accounts, scheduled for 2012, is to be phased over a three-year period. It is planned that employer contributions will be phased in, with employers paying 1% between 2012 and 2015, then 2% in 2015 and finally ending at 3% in 2016. Employee contributions are being phased in over a similar period.

Employers with existing DC arrangements will be able to phase in the required contributions over the same time frame, while those with DB or hybrid schemes will be able to defer auto-enrolment of certain job-holders for up to three years if they continue to be entitled to become a member of the scheme.

Market size estimates suggest that there are 6.6 million private sector employees saving in work-based schemes, of which:

- 2.7 million are in traditional trust-based defined benefit schemes
- 0.9 million are in defined contribution schemes
- 3 million are in group personal pensions and stakeholder schemes.

This leaves 12 million private sector employees to rely upon their own efforts (or to rely on state pensions) to fund their retirement.

EXISTING BACKGROUND CONTEXT: THE EMPLOYER PERSPECTIVE

Recent surveys (see Appendix 1 for key sources referred to) have tracked a dawning awareness of the implications of the new pension proposals among employers over the past 12 months and, with this awareness, some insight into the likely actions or strategies that companies will seek to employ.

Across these surveys, the general trends are clear.

Predominantly in the SME sector:

- The move towards closure of DB schemes and introduction of DC schemes looks set to continue. The ACA survey showed that 90% of defined benefit schemes in SMEs (up to 250 employees) have now closed. The recently published PwC survey has identified the same trend, finding that fewer than one in 20 employers expect their defined benefit pension scheme to be open to new members in five years' time.
- Employer contribution levels to schemes have remained quite flat for the last 12 years among SMEs.
- The number/type of schemes offered is likely to be rationalised.
- Employers are sceptical that the planned pension reforms will solve the pensions crisis, with opt-out levels expected to exceed 40% (ACA Smaller Firms Pension Survey).
- Fifty-five per cent of SMEs say their schemes would fail the personal account exemption test.
- SME response to the introduction of auto-enrolment may involve levelling-down of contributions to meet the associated costs of implementation. The ACA Smaller Firms Survey showed that one in three SMEs expect to reduce existing scheme benefits or close their schemes in favour of personal accounts. Indeed, the PwC survey (June 2009) reports that 41% of smaller employers and 25% of larger employers intend to offer the bare minimum under auto-enrolment from 2012.

Predominantly in the larger corporate sector:
The National Association of Pension Funds (NAPF) found that between July 2008 (the time of its annual employer survey) and January 2009, there had been a strong upswing in the number of companies intending to switch from DB to DC schemes for both new and existing employees, if not already closed, and where DB schemes are retained, there is an imperative to reduce costs/risks.

Another trend started in 2008 was the increasing significance of the pensions buy-out market – where companies transfer their pension deficits to insurance companies. The first FTSE companies to partner in this way were Lonmin/Paternoster and Friends Provident/Norwich Union (as was). Since then, other major companies taking this de-risking route have included Rank, EMAP, Cable & Wireless and West Ferry Printers.

EXISTING BACKGROUND CONTEXT: THE EMPLOYEE PERSPECTIVE

Recent snapshot headlines characterising the employee marketplace (sourced from the NAPF employee survey and BlackRock qualitative employee research 2008) show that:

- Employee confidence in workplace pensions (having increased mid-year) dropped significantly.
- The main reason for not joining workplace pension schemes is affordability (with an implicit 'live for today' rather than invest for an uncertain future). It is the poor relation compared with paying off student debts, getting and paying for a mortgage, funding children, parental care and maintaining a reasonable quality of life.
- A key factor for opting in to workplace pensions is not the tangible and financial benefits provided, but the fact that it is 'handed on a plate' (usually at the start of employment) and the process (and subsequent contribution pattern) is made easy.
- There is a very low level of awareness or understanding of the mechanics of pensions and lack of knowledge about financial targets (that is, the size of pension pot required) tends to inhibit any dynamic planning towards the end retirement goal.
- Other factors influential in people's negative reactions towards pensions are scepticism about the end reward, distrust of pension providers (and observed pension failures), government policies and resentment of the perceived unfairness built into the State benefits system.
- The proportion of people considering pensions to be the best way of saving for retirement has dropped, but those in schemes are maintaining their contribution levels.
- There is a lack of appreciation of the financial incentives and benefits of investing in pensions; for instance, 82% of employees aged 25–34 are unaware they receive tax relief on defined contribution pensions (according to the NAPF survey).

THE EMPLOYEE PERSPECTIVE

840 individual employees were surveyed by GMI in April 2009 as part of this research; see Appendix 2 for technical details.

This section looks at the employee viewpoint in terms of the importance of company pension schemes in their decision to move to, and stay with, an employer and also identifies the extent to which employees feel equipped to plan for and fund their retirement.

Employers, pension providers and public policy-makers will be able to identify the key challenge presented by these findings: to encourage and empower employees to plan effectively for adequate retirement funding.

Recent research has shown that affordability, lack of understanding and scepticism are key factors preventing employee engagement. The CIPD/BlackRock employee survey undertaken specifically for this investigation identifies that fewer than half of all employees positively regard pensions as the best way of saving for retirement.

Interestingly, the factors that influence attitudes and behaviour are related to age and length of time before retirement, rather than occupation. (Occupation level will affect affordability and future working horizons but not the propensity to consider retirement planning as important.)

PERCEPTIONS OF PENSION ADEQUACY

Our survey identifies a basic education and awareness issue that has to be addressed by those seeking to improve employee engagement levels. Table 1 shows that only one in four employees have any idea of the amount they need to save each month in order to live comfortably after retirement and, as shown in Table 2, a correspondingly low proportion do not know what size of pension pot is required for them to enjoy a reasonable standard of living in retirement.

It is encouraging that this proportion is slightly higher among older (50+) employees who are closer to retirement, but these are still in the minority compared with those who do not know what they need to achieve by the end of their working lives.

TABLE 1: Awareness of saving levels required to fund retirement: agreement with statement (Base: all employees)
I know how much I need to save each month to live comfortably after retirement.

		Age of employees				
	Total	**18–29**	**30–39**	**40–49**	**50–59**	**60+**
No. of interviews	**840**	**205**	**238**	**198**	**148**	**51**
Agree completely	5%	6%	4%	3%	7%	8%
Agree somewhat	23%	15%	25%	22%	30%	22%
No opinion	22%	21%	18%	24%	22%	31%
Disagree somewhat	30%	27%	32%	32%	28%	33%
Disagree completely	20%	31%	21%	19%	13%	6%

Source: CIPD/BLACKROCK employee survey April 2009 (see Appendix 2 for details)

TABLE 2: Awareness of pension fund required to fund retirement: agreement with statement (Base: all employees)
I know what size of pension I need to build up to live comfortably after retirement.

		Age of employees				
	Total	**18–29**	**30–39**	**40–49**	**50–59**	**60+**
No. of interviews	**840**	**205**	**238**	**198**	**148**	**51**
Agree completely	5%	4%	4%	3%	7%	6%
Agree somewhat	23%	13%	24%	23%	32%	37%
No opinion	22%	22%	21%	23%	19%	27%
Disagree somewhat	31%	32%	32%	32%	31%	24%
Disagree completely	19%	29%	19%	19%	10%	6%

Source: CIPD/BLACKROCK employee survey April 2009 (see Appendix 2 for details)

The scale of the retirement funding dilemma is brought into sharp relief by the fact that 60% of employees over the age of 50 in our survey say they are worried about the amount of money they will have to retire on; conversely, more than one in four employees under the age of 30 have not even begun to think about it yet. Overall, only one in three employees have any sense of confidence about their retirement provision (see Table 3).

(This correlates with a survey undertaken by Thomson Benefits Solutions in December 2008, which found that 32% of employees were worried they are not saving enough for their retirement, and 11% were not concerned about saving for retirement at the moment.)

The obvious solution to the dilemma of insufficient retirement provision is simply to keep working and this is a course of action that older employees are most likely to identify with. More than half of those aged over 40 now expect to have to work longer than they had anticipated five years ago, as shown in Table 4.

When asked what factors they are likely to take into account in their retirement planning, employees are clearly expecting to call upon a number of different sources. Table 5 shows that, for those in company pension schemes, other savings and investments are also significant, as well as the prospect of downsizing or inheritance. Those who have opted out of joining a company pension scheme are unlikely to have personal

TABLE 3: Perceived adequacy of retirement provision (Base: all employees)
At this point in time, how do you feel about the adequacy of your retirement provision?

		Age of employees				
	Total	**18–29**	**30–39**	**40–49**	**50–59**	**60+**
No. of interviews	**840**	**205**	**238**	**198**	**148**	**51**
I'm extremely worried that I won't have enough to live on after I retire	13%	11%	13%	14%	13%	10%
I'm rather concerned that I won't have enough to live on after I retire	43%	33%	47%	43%	47%	51%
I'm quite confident that I will have an adequate income when I retire	26%	22%	25%	26%	31%	37%
I'm very confident that I'll have adequate income when I retire	6%	66%	4%	7%	7%	2%
It's not something I have thought about yet	13%	27%	11%	11%	3%	0%

Source: CIPD/BLACKROCK employee survey April 2009 (see Appendix 2 for details)

TABLE 4: Expectations of working life extension: agreement with statement (Base: all employees)
I expect to have to keep working longer than I had anticipated five years ago.

		Age of employees				
	Total	**18–29**	**30–39**	**40–49**	**50–59**	**60+**
No. of interviews	**840**	**205**	**238**	**198**	**148**	**51**
Agree completely	13%	9%	10%	17%	18%	22%
Agree somewhat	34%	22%	34%	44%	38%	31%
No opinion	29%	41%	32%	22%	19%	16%
Disagree somewhat	16%	20%	15%	15%	16%	16%
Disagree completely	8%	8%	9%	3%	9%	16%

Source: CIPD/BLACKROCK employee survey April 2009 (see Appendix 2 for details)

pension schemes of their own, but have the greatest reliance on savings and investments: one in four perceive that they may have to continue working. One in ten hopes to rely on the State pension.

It is in the area of future horizons that the most noticeable differences occur by occupation level. Non-managerial workers are more likely to expect to get another job to supplement their income after retirement – a practical solution, which acknowledges their inadequacy of pension provision, but which also illustrates the dilemma of aging workforces that employers are likely to face increasingly in the future (and thereby the need for larger employers in particular to develop exit strategies for employees).

TABLE 5: Factors influential in retirement planning (Base: all employees in companies where there is a pension scheme)
A number of factors can play a part in our planning for retirement. Which of the following do you expect to play a part in your retirement planning?

	All members of company pension scheme	Non-members of a company pension scheme
No. of interviews	**840**	**205**
The company pension scheme I belong to	75%	10%
Other personal/stakeholder pension plans I have	26%	27%
Maturity of endowment policies/bonds	13%	4%
Savings and investments	47%	39%
Downsizing/selling property to release equity	23%	21%
My current (or ex-) partner/spouse's pension or income	22%	16%
Inheritance	22%	19%
Support from family or friends	4%	6%
Another job to keep earning after retiring from work	17%	27%
Something else	3%	3%
None of these – I will rely on the State	3%	14%

Source: CIPD/BLACKROCK employee survey April 2009 (see Appendix 2 for details)

EMPLOYEE CAMEO

Frank is 59 years old, employed as a salesman at a precision instruments company. He hopes to retire at 65. He belongs to the company GPP scheme and contributes above the minimum level.

'I'll never have enough to retire on. Pension legislation and government policy and all that has happened in the stock market has probably seen to that, I guess. It's concerning times, particularly for somebody in my age group. I've been in seven or eight pension schemes and every single one I've ever signed into was always going to be the best deal in the world for me and 40 years later you realise that it just hasn't been. It's all been quite a disaster really. I was a victim of the Equitable – which was supposed to be a rock-solid company – which has been mismanaged under what is supposed to be government ruling. So I'm quite sceptical really. I've got as much put away as I could afford but it won't be enough. I was in the final salary scheme here, but of course the cost of keeping that going for the company was not sustainable and I quite understand that. You know, that is the way it is really. I haven't moved funds around because I haven't got enough in there and there is a penalty for moving it around.'

Are pensions the best way to save?

'What is there to convince me that it is? Not past performance because that hasn't done anything has it? Not security. I don't rate pensions as highly as I once did which is very, very sad.

'I know what income I would like but I won't achieve it and I will just have to make plans. But I mean I'll have my house. The options would be to downsize or do a part-time job.'

PERCEIVED VALUE OF COMPANY PENSION SCHEMES

The survey also supports the argument that company pension schemes are regarded as part of the 'benefits mix' by employees at the time of recruitment but the pension scheme is not usually the overriding reason in choosing to join an employer .

Table 6 shows how the appeal of company benefits differs by age of employee when considering whether to move to an employer. Non-managerial levels of employee are half as likely to consider pension benefits in the decision to move to a new employer.

The value of workplace pensions as a retention device is strongly related to employee age, nearness to retirement and type of scheme. As Table 7 illustrates, pension schemes are more of a retention factor among the 30–49-year age bracket, as retirement planning starts to move higher up the personal agenda. For younger employees with at least 30 years to work before retirement, pension schemes are not likely to act as a retention device.

TABLE 6: Factors influencing the decision to move to current employer (Base: all employees with less than five years experience in current company)

Apart from salary and any bonus/commission payments, which company benefits influenced your decision to move to your current company?

		Age of employees				
	Total	**18–29**	**30–39**	**40–49**	**50–59**	**60+**
No. of interviews	**352**	**125**	**107**	**58**	**45**	**17**
Amount of annual leave	21%	23%	29%	14%	13%	6%
Car allowance	7%	7%	6%	14%	2%	0%
Childcare vouchers	3%	5%	5%	0%	0%	0%
Company car	6%	7%	7%	7%	2%	0%
Company pension scheme	18%	25%	19%	12%	7%	6%
Dental insurance	4%	5%	4%	7%	0%	0%
Disability and/or critical illness insurance (to cover you in case you can't work)	3%	4%	2%	3%	4%	0%
Discounted shopping/retail vouchers	4%	7%	3%	5%	0%	0%
Flexible working hours	22%	22%	26%	29%	11%	12%
Gym membership	6%	9%	7%	3%	0%	0%
Life insurance cover	10%	10%	13%	7%	7%	0%
Loans	3%	4%	3%	2%	0%	0%
Medical screening	3%	7%	2%	0%	2%	0%
Private medical insurance	12%	15%	15%	7%	7%	0%
Share scheme	6%	6%	8%	14%	7%	0%
Training/career development opportunities	16%	23%	17%	7%	11%	0%
Travel insurance	2%	2%	4%	2%	0%	0%
Other	5%	7%	3%	3%	7%	6%
None	47%	42 %	36%	52%	69%	82%

Source: CIPD/BLACKROCK employee survey April 2009 (see Appendix 2 for details)

TABLE 7: The relevance of workplace pension schemes in the decision to stay with current employer (Base: all employees with more than five years' experience in current company)
Apart from salary and any bonus/commission payments, which company benefits influence your decision to stay with your current company?

		Age of employee				
	Total	**18–29**	**30–39**	**40–49**	**50–59**	**60+**
No. of interviews	**399**	**38**	**108**	**127**	**96**	**30**
Amount of annual leave	31%	29%	37%	39%	19%	20%
Car allowance	4%	5%	5%	6%	3%	0%
Childcare vouchers	3%	8%	8%	0%	0%	0%
Company car	6%	13%	7%	4%	4%	0%
Company pension scheme	36%	18%	40%	45%	27%	33%
Dental insurance	2%	5%	2%	2%	1%	3%
Disability and/or critical illness insurance (to cover you in case you can't work)	4%	2%	2%	4%	6%	3%
Discounted shopping/retail vouchers	4%	8%	6%	5%	2%	0%
Flexible working hours	21%	16%	26%	28%	12%	3%
Gym membership	3%	5%	6%	3%	1%	0%
Life insurance cover	18%	18%	18%	19%	20%	13%
Loans	3%	0%	4%	6%	0%	0%
Medical screening	3%	3%	4%	4%	2%	3%
Private medical insurance	15%	13%	15%	20%	10%	7%
Share scheme	12%	11%	9%	15%	10%	10%
Training/career development opportunities	12%	13%	16%	13%	8%	3%
Travel insurance	2%	3%	5%	2%	1%	0%
Other	5%	3%	6%	5%	5%	0%
None	17%	8%	15%	14%%	27%	20%

Source: CIPD/BLACKROCK employee survey April 2009 (see Appendix 2 for details)

The 'pull factor' of defined benefit schemes is evidenced by the fact that 36% of employees in such schemes regard their pension scheme as the most significant factor in their decision to stay with their current employer compared with only 12% of employees in defined contribution schemes (see Table 8).

TABLE 8: Importance of a company pension scheme as a retention device (Base: all employees in a company scheme with more than five years' service with present employer)
How much importance do you place on the company pension scheme you belong to?

	Total	**Defined benefit scheme**	**Defined contribution scheme**	**Don't know**
No. of interviews	**273**	**125**	**133**	**15**
The company pension scheme is the most significant factor in my decision to stay with my current employer	23%	36%	12%	13%
The company pension scheme is one of a number of company benefits that encourage me to stay with my current employer	44%	48%	44%	13%
The company pension would not affect my decision to leave my current employer	33%	16%	44%	73%

Source: CIPD/BLACKROCK employee survey April 2009 (see Appendix 2 for details)

Similarly, employees who belong to a company pension scheme are more likely (than employees who are not members of company pension schemes) to say that they appreciate their benefits package more than they did five years ago (see Table 9).

TABLE 9: Employee appreciation of the value of their benefits package (Base: all employees)
I appreciate the benefits package I get with my current job more than I did five years ago.

		Membership of a company pension scheme	
	Total	**Yes**	**No**
No. of interviews	**840**	**461**	**379**
Agree completely	7%	10%	4%
Agree somewhat	26%	39%	10%
No opinion	38%	34%	44%
Disagree somewhat	14%	12%	17%
Disagree completely	14%	4%	26%

Source: CIPD/BLACKROCK employee survey April 2009 (see Appendix 2 for details)

PLANNING AHEAD

The statistics indicate that employees are most likely to engage with their pensions between the ages of 40 and 49; this supports qualitative evidence (BlackRock research 2008) that at this life stage, awareness of retirement horizons increases and the perceived importance of contributing into a pension versus other commitments becomes more pressing. From a pension provider and employer point of view, this is likely to be the most receptive age group for educating, informing and influencing behaviour changes in relation to retirement planning: the challenge, of course, is to engage employees at a much earlier age to maximise the effectiveness of their investment.

Tables 10 and 11 demonstrate that fewer than half of all employees have reviewed their pension contributions recently and fewer than half expect to do so in the near future.

TABLE 10: Recency of pension provision review (Base: all employees in company pension scheme)
How long ago did you review the amount you personally pay into your company pension scheme?

		Age of employee				
	Total	**18–29**	**30–39**	**40–49**	**50–59**	**60+**
No. of interviews	**461**	**98**	**143**	**123**	**76**	**21**
Within the last 2 years	48%	46%	43%	54%	51%	33%
Between 2 and 5 years ago	21%	26%	27%	16%	13%	24%
More than 5 years ago	4%	1%	3%	7%	1%	14%
I haven't reviewed my contribution levels since I first joined the scheme	27%	28%	27%	23%	34%	29%

Source: CIPD/BLACKROCK employee survey April 2009 (see Appendix 2 for details)

TABLE 11: Future expectations of pension provision review (Base: all employees in company pension scheme)
Thinking ahead, when will you next review the amount you personally pay into your company pension scheme?

		Age of employee				
	Total	**18–29**	**30–39**	**40–49**	**50–59**	**60+**
No. of interviews	**461**	**98**	**143**	**123**	**76**	**21**
Within the next 2 years	49%	43%	47%	59%	54%	10%
Between 2 and 5 years' time	16%	29%	21%	9%	7%	10%
Not for at least 5 years	3%	6%	5%	1%		
When I get my next pay rise or promotion	7%	10%	7%	7%	5%	5%
I have no plans to review my contribution levels	25%	12%	20%	24%	34%	76%

Source: CIPD/BLACKROCK employee survey April 2009 (see Appendix 2 for details)

Notwithstanding this, the company pension scheme is the mainstay of retirement provision for two-thirds of employees overall: two out of three employees say they are mainly (or totally) relying on their company pension scheme to fund their retirement.

Not surprisingly, however, older employees are more likely to consider other savings and investments (including property) as important elements in the mix of retirement funding (see Table 12).

TABLE 12: Reliance on the company pension scheme to fund retirement (Base: all employees in company pension scheme)

To what extent are you relying on your company pension scheme to fund your retirement?

	Total	Number of years to retirement			
		10 or fewer	11–20	21–30	More than 30
No. of interviews	**461**	**88**	**116**	**147**	**110**
Totally: I have no other significant savings or investments	20%	17%	22%	22%	20%
Mainly: it is my main way of saving for retirement	45%	33%	44%	48%	50%
Partially: I have other savings or investments (including property) to help fund my retirement	31%	44%	32%	28%	25%
Not at all: my other savings and investments will fund my retirement	4%	6%	3%	2%	5%

Source: CIPD/BLACKROCK employee survey April 2009 (see Appendix 2 for details)

EMPLOYEE CAMEO

Heather is 55 and a management accountant at a financial services company. She has worked for the firm for 22 years, during which time their defined benefit scheme, to which she belongs, closed to new members three years ago.

'We used to have a final salary pension but that was stopped: I pay into that through salary sacrifice. My husband is in a final salary scheme at his company and should get 30/60ths when he retires. I see him as being the main pension person but I'll do whatever I can to top mine up. We are doing whatever we can and think we should be alright, but it is something I worry about. We don't really know if we'll have enough. How long I work will depend on our financial situation at the time and when we have a definite retirement date in mind we will contact the pension provider to see what else we need to put by.

'Also, I have a 29-year-old son and 3o-year-old daughter and we try to help them financially. I would rather see them get some enjoyment out of the money than let the tax man have it. You have to weigh up what you do – do you help your children or do you try to save?'

EMPLOYEE CAMEO

Matt is 27 and married with a family. He is a buyer in a small building firm employing 40 employees. He has been with the firm for a year and will be eligible to join the company scheme in another 12 months' time. He belonged to a non-contributory scheme in his previous employment and currently has no private pension arrangements..

'Obviously because I had just started one at the firm that I had left, I did want to have another one, just purely because I haven't got my own one and I've got kids so it's not easy to have to find money to pay into a pension and hear about how much you're supposed to be paying in and everything. It's better to have something rather than nothing. I mean it would have been nice if it had kicked in straight away but obviously I understand that when the company takes you on they invite you to join the pension scheme. It is an investment for them so they obviously want to see how it goes first.

'I'll start contributing a bit later in life, probably when the children are a bit older. There's never a good time – I suppose when you're in a position where you've got a bit of spare money that you can afford to put some money in and still enjoy yourself. I've got to get in touch with my previous pension company to find out what I have with them because I'm not actually sure what you can do with them, whether when you leave somewhere and they just become dormant and sit there until eventually you get to retiring age and then you'll get you know £5 a month or something. Or whether you can actually do anything with that, if you can move it to another pension fund.'

Are there other ways to save?

'I think through property probably. I don't know. When I see my parents and my grandparents and they work really, really hard and struggled to pay loads and loads because there is this mindset that you've got to plough as much money as you possibly can into pensions and then you don't particularly end up with anything fantastic at the end, you just think what is the point?'

WHY DON'T EMPLOYEES JOIN THEIR COMPANY PENSION SCHEMES?

It is generally accepted that non-membership of company pension schemes strongly correlates with age, affordability, apathy, antagonism (directed towards the State benefits system) and lack of added value.

> *'I think most people are under the impression that "well I'm not going to starve am I?" and somebody somewhere will look after me.'* [1]

Certainly, statistical evidence supports the affordability rationale: half of all non-members in our survey stated financial pressures as the main reason for not joining their scheme. But the figures do identify areas of opportunity that could be embraced by more proactive communications, for example:

- One in four say they have not thought about joining a scheme since they originally joined the company; this highlights a weakness in pensions strategy currently among many SMEs. After the initial induction, there is no proactive system of reminding and inviting employees to join.
- One in ten state a need for hand-holding to understand the scheme: it has already been identified in this report that where one-to-one external advice exists, levels of take-up are much higher.
- Nearly one in five regard membership of a company pension scheme as a sign of commitment that they do not want to make: this clearly raises the issue of portability of pension schemes. Indeed, perceived lack of permanence in their job is a bigger factor than affordability for non-managerial employees deciding not to join their company pension scheme.

TABLE 13: Reasons for not joining a company pension scheme (Base: all employees who are not in a pension scheme offered by their employer)
Why don't you belong to your company pension scheme?

	Total
No. of interviews	**124**
I am not eligible to join it	11%
I was not eligible when I joined the company and have not thought about it since	6%
I couldn't afford it when I joined the company and have not thought about it since	24%
I already have a personal pension that I pay into	12%
The level of employer contribution isn't a big enough incentive to join	10%
I don't expect to stay at the company long enough to be worthwhile joining their scheme	18%
I don't understand it enough to make the decision to join	10%
I am not interested in saving for retirement yet	6%
I have other more pressing financial priorities	19%
I can't afford it at the moment	31%
I would rather save in ways other than a pension	16%

Source: CIPD/BLACKROCK employee survey April 2009 (see Appendix 2 for details)

[1] *Employer: 130 employees, matched contribution stakeholder scheme.*

EMPLOYEE CAMEO

Robert is 30 and works as a machine setter in an engineering company. He has been with the firm since the age of 16 and was in their defined benefit scheme, which closed a few years ago. He decided not to join the replacement stakeholder scheme.

'They were taking a lot of pension money out which left me short. I actually only looked at it the end of last year, of taking it out and putting it into my own private one but the value had decreased that much I had to decide – do I risk taking it out and losing so many thousand or do I keep it in and hope this place stays up and I still get it? It's going to be 67 or 70 for me to retire. If I put it in the pension am I going to lose it? That's why I'm thinking for me, being middle-aged, I've gone for the route of keeping it in an ISA. I mean you're talking 37 years more before I get any money from here so can I see this place being here in 37 years at the moment? At the moment, no I can't, no.

'I wish I'd put all the money I had when I first started into an ISA account when I was 16. I think it was something like about £7,000 or £8,000. That would have doubled or trebled by now in a decent ISA account – they were paying 6% or 7%. But that £7,000 is worth about £3,000 if I take it out and put it into another pension.

'I'd probably be thinking more about pensions when I'm 55 and thinking right, I've got 10–15 years to plough some money into it now. If I'm well off enough to do so then that's the time to boost the pot so to speak.'

EMPLOYEE CAMEO

James is 27, single and a graduate engineer at a precision engineering company with a student loan outstanding. He has no significant outgoings but plans to buy a house in the future. He does not belong to the company pension scheme yet but plans to join.

'My view on pensions is quite cynical. I'm pretty much of the belief the entire pension system will come crashing down across the next couple of years and anything I start putting away now will be worth maybe a loaf of bread in its entirety, which is probably extremely the wrong attitude to have. The reason I'm currently not in the pension scheme here is because I haven't got the paperwork. It's as simple as that. I've got it at home. I need to really get involved in it. It's a good idea. I really ought to do it and I just never get round to doing it. The other cynical side is saying well what is the point because they are probably going to raise the retirement age across the next 30 years so I probably won't retire until I'm about 75 or 80, whatever. I might be dead by then.

'We were all given an overview of the system and how it's going to work and what is going to happen and what you can do and what you can't do and how it is going to reflect on this and that. It's just that I got a half-inch thick book and I haven't read it yet. I'd want to know how the money was being used and where it was going, and if the stock market crashes how much it is safe and is it protected or does it just go and I want to have an understanding of how it all works before I do it. That is probably one of the underlying reasons why I haven't done it yet. I've not set aside the time to get a thorough understanding of the pension system, how it works, what the State pension pays out and what they don't, and what the complications of getting that are, and all the rest of it. I need to sit down and look at the whole thing as an overview and get an understanding of all of it before I make a decision. And the more I think about it, the more impossible this task becomes and the less likely I am to do it. I'm concerned about making a decision which might be undermined by forces outside my control later on. They might say you've got to work until you die and then well I've saved up all this money, can't get it back, can't do anything with it, I'm working until I'm 85 in my hospital bed and that's it.'

What if it were made simpler?

'Yes, if it was consistent with a savings account. I think part of the concern perhaps about it is that if I put money away I can't get at it, I can't get it back. It's like you shall not touch until you're 65 and you've retired.'

THE EMPLOYER PERSPECTIVE

Fifty-six telephone depth interviews were undertaken among decision-makers responsible for HR and pension matters across all sizes of company with at least five employees – ranging from small family businesses to FTSE 100 and 250 organisations. A profile of participating companies is shown in Appendix 2.

This section identifies the key issues faced by employers, the factors that influence company pensions 'strategy' and the levels of support that would help employers to optimise employee engagement.

As might be expected, the spectrum of company policy and behaviour in relation to workplace pension schemes within the private sector is wide: the factors underpinning outlook and practices are an interplay of:

- **The sector in which the business operates:** the traditional 'blue collar' sector presents the biggest challenge to workplace pension scheme introduction, with lower incomes and greater negativity towards the pensions infrastructure. Conversely, professional/specialist skill-led businesses are more aware of challenges of recruitment and retention.
- **Ownership:** the attitudes of the owner(s) and 'company ethic' dictate the reward package they are willing to fund.
- **Competitiveness:** in terms of recruitment pressure, the more senior the employees, the more importance is attached to the quality and flexibility of pension provision.
- **Size of business:** in larger businesses, the existence of a pension scheme is the norm, and therefore has to be generous if the company wishes to differentiate on these grounds. Having a good pension scheme is therefore crucial to recruitment and retention, otherwise it is just accepted as a 'given'.

PENSION SCHEMES IN PLACE

The type of pension scheme in place dictates the level of activity, involvement and resource spent by HR and/or finance departments.

DEFINED BENEFIT SCHEMES

Potentially the most problematic and time-consuming of pension schemes, from a company viewpoint, are defined benefit schemes. Within our sample, any defined benefit schemes in place have been closed to new members and are being managed out, with simple stakeholder schemes or GPP schemes replacing them for new entrants and, in some cases, existing employees were being transferred into the replacement scheme.

As a concept, the defined benefit scheme presents a paradox in that it delivers – from an employee point of view – a quantifiable end result. Furthermore, the initial rationale for introducing DB schemes from an employer point of view was often with the best interests of employees at heart. Indeed, any 'ideal solutions' to solve the retirement funding dilemma are often defined in terms of receiving a level of income proportional to earnings. There is no doubt that the disastrous investment climate has made closure decisions necessary for many employers, but the financial legacy costs can be onerous to the point of business ruin; in this respect, perceived excessive compliance costs and accounting treatment place a time-consuming and weighty burden on the financial and administrative management of the company. Not surprisingly, the Government is perceived to have 'shot itself in the foot' by penalising employers who would otherwise be better able to support employee pension provision.

The commitment to defined benefit schemes is such that many employers have resisted the financial decision to close them until absolutely necessary; the key drivers necessitating change are cost and transfer of risk from the employer to the employee. The process of managing out the schemes is a real and as yet unquantifiable business concern looking into the future, and certainly flagged as the most pressing concern among our sample at this point in time.

Certainly, there are plenty of high-profile examples where organisations have had to make major strategy decisions to offset the fallout. For example:

- Royal Mail reportedly on the brink of collapse with a pension fund deficit in excess of £5.9 billion (February 2009)
- BT, which announced a potential tranche of job losses in May 2009, reportedly as a response to an £8 billion pension deficit
- Barclays, which is closing its final salary scheme to existing members with a £2.2 billion deficit (June 2009)
- Morrisons, which is moving to a career average scheme for existing members (June 2009)
- BP is closing its final salary scheme to new employees from April 2010.

'Looking back we should have closed our final salary pension scheme three years earlier because we really lost three years. I think people are more accepting that we tried everything to keep it open. But we currently pay £50,000 arrears a year, which is going to go up at some point, we pay £60,000/£70,000 to the actuary for fees and we pay £35,000 to the PPF levy. So that is £100,000 in regulatory-related bits and pieces and £50,000 actually going towards the people who are owed the money. So it's only one-third efficient as a delivery mechanism.

The actuary fees have roughly doubled simply because of increased workload. We have to do five or six different valuations a year now instead of one or two. There are regulatory returns. A lot of paperwork basically, which takes more or less the same length of time whether you're us or the BA pension scheme – as a small scheme with about 130 people it costs us about £100,000 a year in fees and costs and about £50,000 for contributions. So, we start the year minus £150,000 profit before we've made a widget, received an order, and we've still got to pay people again for their pension contributions and their life and their PHI and benefits. So it's horrific. We're in a year where we might have made a small profit if this wasn't on our backs but actually we're going to make a loss because we're carrying £150,000 a year of costs to do with something that was decided back in the '60s that we didn't really get rid of early enough. So it's out of all proportion really.'

Finance Director, Grant Instruments

'The change in accounting standards and the nature of regulation in the UK has made it much more difficult for many companies to preserve and to run DB schemes than it perhaps otherwise would have been. DB is dead for companies in the UK, it just doesn't seem to make any commercial sense to start one up, but if you've got one you've got to manage that as effectively as you can.'

HR Director, British Telecom

'We wanted to get away from the final salary scheme because of the complete guesswork it provides for the finance department who are accounting for it.'

Finance Director, Towry Law

Even when closed, defined benefit schemes take up a significant amount of HR and finance department time; typical examples are shown below.

'I calculated by going to a GPP, even with a 6% contribution we'd save over £1 million a year in contributions, employer cost. And as a business that was doing £40–50 million turnover that was a significant amount of money. As well as being the company manager that looks after the pension schemes I'm also a trustee of the old defined benefits scheme and in fact if you split the amount of time I spend between the two schemes I probably spend 90% on the old scheme.' [1]

'But it did take some heart-aching thinking what to do, but the company just came down and said, 'It's about cost saving. We cannot have these open-ended liabilities.' You can't structure the business on that basis. We basically don't want any turmoil in terms of what the costs are, so we don't really want a final salary plan at all.' [2]

'Looking after the final salary pension scheme takes on average about a quarter of my time on pensions issues. To give you an example, the scheme continues to be in deficit as is common with most employers' final salary pension schemes. And we have got to do a major review yet again as to whether we can continue to keep it open to future accrual. There is a mismatch of effort. If we see pensions as being an employee benefit, which is obviously why you do it and wanting to provide for our employees in a good way, then our efforts should be put into the stakeholder scheme and its management and its review and is it serving the purpose it should be serving? Instead our activity has to be put into the final salary scheme because of the financial liability. So I probably spend 2% of my time on the stakeholder scheme and 20–30% of my time on the final salary scheme.' [3]

'So the philosophy change was literally we're sick to death of having to write a blank cheque to a pension scheme and not being able to predict how much this would cost…and sadly part of that is because of the changes that have been made legislatively much more expensive to make sure that the scheme is kept within all the legislative boundaries.' [4]

[1] Manufacturing/engineering, 450 employees, closed DB, GPP scheme
[2] Manufacturing/engineering, 50–100 employees, two closed DB schemes, current stakeholder with employer contribution
[3] Professional services, 450 employees, closed DB scheme, stakeholder scheme with employer contribution
[4] Catering, 50–100 employees, closed DB, current stakeholder with employer contribution

The deficit got worse despite the fact we've always paid in what they actually wanted, really because of a combination of additional obligations on the pension scheme, with a widower's pension, equalisation of retirement age, same sex partners who we're paying pensions for, all of these things were just widely out of anything the Swiss ever had in mind when they set the scheme up in 1978. So it just became totally uneconomical. The Pension Protection Fund is an example of a ridiculous tax. The danger is it will just tip people over. The bigger the deficit the more you pay. Anything we can do to reduce that liability will improve the look of the balance sheet. Obviously we know what it is and it's not a liability that you have to pay in the short term but it does externally affect the value of your business, certainly as far as credit rating agencies are concerned and as far as the banks are concerned.

Finance Director, Muller England Ltd

However, not surprisingly perhaps, DB schemes are more likely to be valued by employees as good schemes, as shown in Table 14.

TABLE 14: Perception of the quality of employer scheme (in terms of employer contributions) (Base: all employees in a company scheme)

From the point of view of employer contributions, do you feel that your current employer's pension scheme is…

	Total	Defined benefit scheme	Defined contribution scheme	Don't know
No. of interviews	**461**	**168**	**264**	**29**
Excellent	21%	27%	17%	14%
Good	39%	45%	37%	28%
Okay	34%	26%	38%	48%
Not very good	4%	1%	6%	3%
Very poor	2%	1%	2%	7%

Source: CIPD/BLACKROCK employee survey April 2009 (see Appendix 2 for details)

DEFINED CONTRIBUTION SCHEMES

In terms of the level of time and energy expended by the employer there is little difference between group personal pension (GPP) schemes and stakeholder schemes: a couple of companies in our sample had migrated from a GPP scheme to a stakeholder scheme to simplify administration and reduce costs – in both cases on recommendation from external advisers.

Trust-based arrangements represent a small minority of schemes and only exist in a few major corporates within our sample: these have specific pensions expertise in-house to manage the trustee responsibilities.

Previous surveys have highlighted that uptake of group stakeholder schemes is disappointing. The evidence of this survey confirms that in many instances – and especially within smaller businesses – the introduction of the stakeholder scheme has been, essentially, a complete non-starter if measured against the objective of encouraging employee engagement with retirement planning.

Indeed, for small businesses (for whom survival is the order of the day) the introduction of the most basic stakeholder scheme to tick the compliance box when they were first required to do so was a case of adopting the simplest, least costly option – access to a scheme to which the employer did not contribute and that offers no incentive for the employee to join. Not surprisingly, then, take-up of such non-contributing schemes is minimal, and occasionally zero.

It is likely, then, that the 48% penetration of group stakeholder schemes within SMEs (ACA Smaller Firms Pensions Survey) includes a significant proportion of empty 'shell' schemes simply sitting on the shelf.

Smaller firms are more likely to be owner-run and strongly influenced by their personal belief systems – and experiences. So, if the owner does not believe in the value of pensions, there is no 'top–down' example to filter through to employees.

'I don't think employees are interested to be quite honest.' [1]

'The working man doesn't want to do a pension. He's paying in his National Insurance and he wants that pension at the end of it.' [2]

'The pension I took out years ago was worthless – it was a waste of time and money.' [3]

[1] Trade services, 5–10 employees, turnover less than £1 million, no company pension scheme in place
[2] Building services, 5–10 employees, turnover less than £1 million, no company pension scheme in place
[3] Retail, 5–10 employees, turnover less than £1 million, no company pension scheme in place

HR/ORGANISATIONAL PERSPECTIVE

Company philosophy towards provision of workplace schemes evolves with size, perceived 'need' and philanthropic attitude towards employee engagement (this is not necessarily related to size of company, although the largest organisations are much more committed to building the cost of generous pension schemes into their employee packages).

Smaller SMEs

The typical employer stance among small companies is that retirement planning is the responsibility of the employee. Not only does this absolve the employer of any 'moral' responsibility and the cost of implementation, it also distances them from the need to get involved in the mechanics of administering a scheme and the net result is a total lack of engagement, not only from the employees but also from the employer. Invariably, the pension schemes are simple stakeholder plans.

The economic conditions within which companies are operating clearly puts cost at the forefront of any agenda, but responses to any changes in pension regulation stem, very often, from a personal perspective. Those in decision-making capacities have seen cyclical changes of government policy and have experienced shortfalls in pensions/endowments themselves; they therefore empathise with their employees and feel strongly motivated towards guarding the integrity of their pensions.

'I've got three pensions and I'm going to cash one in shortly because it's not going to accrue to anything. I can have the money and put the lump sum to some good use. ' [1]

'If you haven't got any money you get it from the government. If you've got money they tax your old age pension because you've got money. That's no incentive at all. ' [2]

'Certainly the bad press and the actual current performance of pension plans leave a lot to be desired with regard to people investing in pensions. Certainly for myself with my own pension plan I have to wonder, why do I bother? ' [3]

Larger SMEs

Employee recruitment and retention becomes more of an issue, particularly in business sectors that require specialist/trained staff: the provision of a pension scheme starts to become:

- more of an expectation
- a meaningful element of the remuneration package (with employer contributions)
- one of the first employee benefits to be offered within the remuneration package.

The provision of a pension scheme also reinforces and demonstrates a company ethic of supporting and rewarding employees. Schemes may be stakeholder or GPP, or even contributing towards the personal pension arrangements (typically for senior personnel).

'We want to be able to attract employees to come here and stay here. For the last two years since I've joined the only benefit to employees was being able to park in the car park free and a small healthcare policy. Obviously, I've sat in on a few interviews and of course people say, 'oh, isn't there a pension?'… and we say 'sorry, no'. So I think it got to the stage where the management team sat down and said, 'right, we've got to offer something'. [4]

[1] *Retail, 11 employees, no company pension scheme in place*
[2] *Building/trade services, 6 employees, no company pension scheme*
[3] *Professional services, 6 employees, group stakeholder scheme*
[4] *IT/computing, 59 employees, group stakeholder scheme, no employer contribution, salary sacrifice after six months*

Larger corporates
These corporates are characterised by:

- the range of pension schemes in place: defined benefit schemes and trust-based DC schemes are more likely to be (or have been) in place
- defined (and often broad-based) reward strategies
- specialist HR or financial personnel managing the pensions and reward packages
- a strong sense of support for employee retirement planning.

Four basic employer organisational/behavioural segments can be identified (Figure 1)

1 ACCESS ONLY

The rationale for offering a scheme is purely compliance.

- These are typically the smallest companies, and those with more manual/transient/seasonal workforces. This segment represents one of the biggest challenges to the introduction of workplace pensions and, looking ahead, will continue to do so.

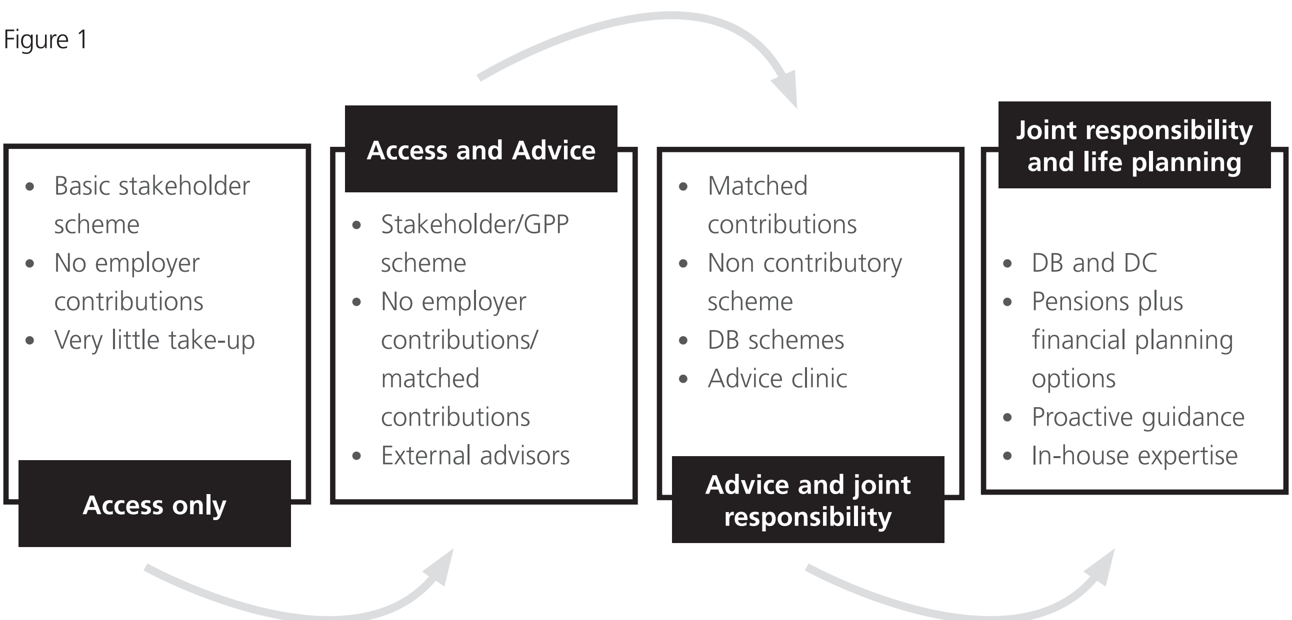
- Employees are:
  – low-paid, often weekly-waged
  – more mobile (and stability in a job is seen as a prerequisite to considering a company pension worthwhile)
  – often young
  – sceptical of pensions.
- Employers:
  – are working on lower margins/more cost-sensitive
  – may have relatively large numbers of casual employees
  – are sceptical of pensions as an effective means of saving for retirement and consider them almost irrelevant.

2 ACCESS AND ADVICE

- The rationale for offering a scheme is duty of care to employees and to attract best employees.
- This model is typical of the SME with office-based, salaried employees.
- Advice is not available within the company, either because of lack of expertise or trustee compliance.
- Where employers link into a proactive advisory relationship, the take-up rate is likely to be more successful. Facilitating access to financial advice is regarded as a benefit in itself, even if the employer does not contribute to the scheme.

'I think the better aspect to it is the fact that employee members get financial advice and I think certainly the younger members of employees wouldn't necessarily go and see a financial adviser and therefore we are giving them the opportunity to actually have a consultation or speak to people at an earlier age'.[1]

Figure 1



[1] *Professional, 50–100 employees, personal pension contributions/no company scheme*

Even so, employers are not proactive in encouraging take-up at a later date if employees do not join the scheme immediately on induction. The cost implication of regular communication and encouragement is an issue.

'I think people know they need one but they almost need steering in the direction and you almost have to be explicit and have a 'look sign' there but obviously you can't do that because you're not there to give advice…I mean ours is a group purchase scheme so it's a group personal pension. So as a consequence I don't give advice because obviously I can't leave the company exposed to any potential claims for wrong advice'.[1]

'We offer people what there is and what is available and if people want to investigate pension as an option then we'll support them and people are able to set up meetings with our pensions consultant and talk to them and get advice about what's the right thing for them, you know, but then the rest is up to them really'.[2]

3 ADVICE/EDUCATION AND JOINT RESPONSIBILITY

- The employer has a more defined 'duty of care' philosophy to encourage employee financial responsibility and will have a scheme in place, which is positioned as a benefit and which has an element of employer contribution. Employers draw the line at assuming any responsibility for funding retirement. The majority of larger SMEs upwards would fall into this segment.

- Employers offering DB schemes would fall into this category.

'I hope that (the DB scheme) will continue, that the company will be able to continue to fund it. I mean personally and with my HR hat on and with my trustee hat on, I want the employees to get what they've been promised when they retire because if they don't we haven't done our job properly'.[3]

These companies are also likely to have a benefits package in place reflecting their philosophy of committing to employee job satisfaction.

'I think employers should encourage employees to consider some form of saving, whether it's a pension or whatever but I think it is incumbent on any decent employer to at least put a framework in place that employees understand and can dip into quickly to save if they wish. But fundamentally I don't think as an employer it's my responsibility to ensure that in 30 years' time my employees at the moment are well looked after'.[4]

'The business case for offering pensions is that, hopefully, it would encourage employees to see that you are looking after their welfare as opposed to just providing them with their basic salary and any other emoluments that go along with that. The company will also receive corporation tax relief for contributions that it makes so it's a tax-efficient system within which we operate. By having a scheme here it encourages individuals to see that they must make provision for themselves in the longer term because the State will not continue to provide for them longer term'.[5]

'No, it's a joint responsibility. I think our responsibility is to provide a good quality pension scheme if the individual is interested in availing themselves of a pension scheme. I'm not sure that it is the employer's responsibility to beat the employee over the head with 'you must join the pension scheme'. So with the stakeholder we've put in place we've put those ranges in place with the increased matching so that if someone was interested in saving for a pension and were prepared to put a bit more away then the company would recognise that and would give them a bigger contribution'.[6]

[1] *Manufacturing/engineering, 100 employees, GPP scheme*
[2] *Professional, 16 employees, stakeholder with matching employer contributions)*
[3] *Professional, 48 employees, closed DB scheme with DC scheme*
[4] *Retail, 260 employees, stakeholder scheme with graduated contributions*
[5] *Professional, 130 employees, matched contribution stakeholder scheme*
[6] *Major corporate, 1,000+ employees, closed DB, current stakeholder scheme*

'We want to be an employer of choice and therefore we recognise the need to have a good pension scheme but we are not overly proactive in promoting it because it costs us money. So we will provide a good scheme and we will communicate it and encourage people to think about saving [for retirement] but we're not going to force them to do it'.[1]

4 JOINT RESPONSIBILITY AND LIFE PLANNING

- At this most philanthropic end of the spectrum, employers have a genuine corporate social responsibility to employees, translated into:
  - a comprehensive, flexible benefits package
  - pension options that are as flexible/generous as can be afforded by the company, but which are regarded as integral to the benefits package rather than stand-alone
  - proactive advice and financial planning strategy for employees.

- Pension schemes may be DC, non-contributory or matched funding, often with prior history of DB schemes.

'Broadly speaking people who are within ten years of retirement should be coming to one seminar a year and then within five years of retirement they should be coming to two or three a year. And that's all to do with actively managing their fund and Barker Poland's strategy of switching people into particular funds as they approach retirement'. [2]

'I'll be honest, I think if you isolated pensions then you wouldn't probably get that much response from the board but if you talked about employee benefits their philosophy on that is that it's very, very important to the company'. [3]

'We see it as a valuable part of our overall reward strategy and we invest in it accordingly. That's why the DC scheme is upper quartile in the company contributions, at the top end with 12%. And we want our individuals to make a value judgement on it having benefit to them, being part of their lifecycle with us. And we see it as a core product and we communicate it accordingly. So, we put a lot of effort into the communication. But ultimately if somebody makes a value choice and an informed choice that it's not for them then that's their choice. It's their choice until 2012 when their choice becomes different, which is they need to be able to choose to opt out rather than opt in'.[4]

Our research reveals that British Telecom and Kellogg's are good examples of the 'philanthropic' segment; their reward packages are based on an auto-enrolment route in, with dynamic models in terms of flexibility of employee options, proactive life-stage planning opportunities, communications strategy within the firm, employee consultation, forward planning strategy (with 2012 in mind) and employee engagement.

BRITISH TELECOM'S APPROACH

'As we move forward, particularly around the defined contribution arrangements, the flexibility and the additional options we are introducing will be highlighted. It's one of the reasons we're going for a contract-based scheme with Standard Life…We've taken advantage of the pension simplification and SIPPs so employees can actually build up share holdings and do other things and invest their pension allowance in a wider way.

We already have an extensive communication plan and are continuing to develop an ongoing strategy that is really there to help employees. This is all around engagement and empowerment – enabling people to understand the wider investment choice and other opportunities. I envisage that the improved level of management information that we can get will also enable us to perhaps direct communications to certain people.'

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[1] *Major corporate, 70,000 employees, closed DB schemes, current DC with employer contributions*
[2] *Professional, 83 employees, DC non-contributory scheme*
[3] *IT/computers, 185 employees, GPP scheme*
[6] *Major corporate, 10,000+ employees, closed DB scheme, current DC scheme*

KELLOGG'S APPROACH

'The objective of the reward package has been designed to engage 100% of employees and, to this end, alternative vehicles have been introduced that appeal in the short term with longer-term advantage.

Kellogg's historically offered a DB scheme and moved to a DC scheme with comparative contribution levels:
But with DC it was a harder job to persuade members to join. With voluntary membership we could influence two-thirds to join the scheme through induction training because it is a good scheme, however, that still left a third unaccounted for. So, we looked at what was actually happening with future legislation like personal accounts and we took the bold step of moving to auto-enrolment with another feature called 'Save More Tomorrow'. Save More Tomorrow means that everyone is now auto-enrolled into the scheme with a contractual obligation to build their contributions up to full rate. This also offered an opportunity to consider personal accounts now and by ensuring it meets the standards set for personal accounts we'll pay 5% and the employees can pay 3% thereby making it more attractive than the legislative position.

So we've knocked personal accounts out. We've also knocked out auto-enrolment and it means that people will step through from 3% in the first year to 4.5% in the second year and then 6% in the third year timed to coincide with salary review time. Employees will then be in our DC plan with 16% of salary contribution. So we've moved ahead quite quickly. Last year we put another pension provision in place when we introduced a group SIPP to take advantage of another of our employee benefit's maturing called 'KSIP', the 'Kellogg's share incentive plan', which matures after five years. The basis of the KSIP plan is to purchase shares from gross pay, so let's say for example that you purchased £1,500 of shares from your gross pay, which costs £900 net, we will give you another £1,500 of matching shares free. Those shares are held in trust for five years and at the end the shares come out tax free. At the present time, if you have contributed £900 net in 2002 it is worth about £4,400 in 2009. If you take that £4,400 and put it into the Group SIPP the Government will then make it up to £5,500 and they will also, if you're a higher rate taxpayer, give you a further rebate for £1,100, which pays for this year's KSIP. So it can become self-funding.

If employees want to use that as a means of saving towards pension then what they've got if you're a higher rate taxpayer is a mechanism that self funds and can become non-contributory.

Kellogg's have always positioned themselves as paternalistic in the way that they view their approach to employees and are always open to good ideas that are coming through that will benefit our employees. We've not only been at the forefront of pension provision, we've also introduced flexible benefits in the last four years to all employees aimed at providing more wealth-creation.

In summary, we want to remunerate employees competitively and offer flexibility and choice in the employment package.

So that is why programmes like flexible benefits can improve how we use the same pot of money that you started with, it's just making that pot of money work harder. There is a whole menu of benefits under our flexible benefits plan, called 'Cornflex', including provisions to take advantage of salary sacrifice on the pension scheme, private medical insurance, life cover, childcare, critical illness and some voluntary benefits. We are always looking to enhance that package of flexibility and choice to maintain our market position and be seen as 'a great place to work'.'

The 2008 ACA survey of small firms identified that 70% of firms supported the transfer of risk to individuals inherent in the move to defined contribution pensions.

As Table 15 shows, most employees also accept sole responsibility for their retirement provision.

However, as reported in Section 3 (Employee Perspective) one in three employees admit they have not reviewed the amount they pay into their company pension scheme in the last five years (if at all), and a similar proportion have no specific plans to review their personal contributions looking ahead.

TABLE 15: Employee acceptance of responsibility for pension planning (Base: all employees)
It is solely my responsibility to ensure that I have enough to live on when I retire from work.

		Age of employee				
	Total	**18–29**	**30–39**	**40–49**	**50–59**	**60+**
No. of interviews	**840**	**205**	**238**	**198**	**148**	**51**
Agree completely	21%	26%	21%	20%	18%	18%
Agree somewhat	40%	32%	45%	42%	41%	43%
No opinion	22%	26%	18%	21%	24%	25%
Disagree somewhat	12%	13%	11%	11%	14%	12%

Source: CIPD/BLACKROCK employee survey April 2009 (see Appendix 2 for details)

THE EMPLOYER'S (HR) BUSINESS CASE FOR PENSIONS

There is no evidence to suggest that businesses of any size objectively measure the return on investment of their pension schemes: these are evaluated in 'soft' non-financial measures – at best, with employee satisfaction surveys and to a lesser degree in terms of recruitment and retention rates and costs, but these cannot/do not isolate the value of the pension scheme per se. Furthermore, the frequency and regularity of pension structure reviews are dictated by compliance requirements (trustee/governance meetings) and external influence mainly in the form of third party advisory intervention.

The AXA/Thomson Employee Benefits Survey 2008 identified that 74% of companies do not measure ROI in any way: 17% do so by looking at retention, 12% do so by looking at recruitment.

Cost is a major inhibitor in the introduction of a pension scheme; in such cases, that is, where they are not introduced, the need to offer other compensatory low-/no-cost benefits to employees becomes important (even though employers may not be compliant on the pensions issue). The balance between funding additional benefits and offering employees a meaningful incentive is difficult to achieve; the main tools at their disposal are flexible working hours, number of holidays, training and other options, such as free parking.

'In an ideal world having a pension scheme would have been great, but as an organisation we've been a loss-making organisation for a while so it's just not practical. We have been asked about that in job interviews but we've explained to people it's not something that the company is in a position to offer. However, we counter that by having very flexible working conditions. So it's kind of a trade-off, although we can't support a pension, we can support them in other ways'. [1]

Not surprisingly, where there is little/no employer contribution, pensions are not regarded by HR employees as a benefit – and the minimal take-up of such schemes completely supports this perspective.

Similarly, smaller companies tend to be reactive to the attitudes and expressed desires of their employees rather than proactively steering benefits.

'We took a poll of our employees over the last couple of years and asked them what they were looking for; we wanted basically to try and put something in place that was going to keep them bought in to the organisation, keep them motivated and driven to achieve. We gave them a few options…a higher base salary, better commission scheme, any other benefits and of those other benefits a pension was included. The vast majority decided that they would take their own pension as opposed to having something done through the company.' [2]

The introduction of a more 'value-added' benefits package depends upon company philosophy and evolution into a competitive labour market, and certainly is a feature of larger SMEs upwards. At a certain size of business, as the need for recruitment of management/professional employees becomes relevant, pension schemes come onto the HR benefits radar:

- **as a recruitment incentive:** the generosity of the scheme will depend upon affordability and company philosophy, but will essentially be variations on:
  - salary sacrifice (perhaps in lieu of employer salary contribution)
  - deferred eligibility (up to two years before employer contributions kick in)
  - matched employee/employer contributions or non-contributory
- **in order to stay competitive** with other companies recruiting locally or in their sector.

[1] *IT/computers, 11 employees, no pension scheme*
[2] *Professional services, 7 employees, no pension scheme*

Not surprisingly, the role of the pension scheme within the company benefits package is directly correlated to its actual value. So, schemes that are entirely dependent on employee contributions (and apparently rarely taken up) are not considered to be benefits either by the employer or the employee and are usually only brought to the attention of the new employee when they join the company, with no encouragement to join.

Where some value can be promoted by the employer (albeit salary sacrifice or employer contributions either matched or non-contributory), it then becomes a topic of conversation at recruitment interviews, although there is no sense that the pension scheme is a 'make or break' factor in their decision to work for any particular company.

'When we're employing a new employee I always make it clear that after three months they are able to join a pension scheme but it's never been a focus for a discussion at an interview. It's one of those things that's offered – like you offer a pension scheme, you offer free parking'.[1]

This is borne out by employees themselves: when asked which factors influenced them to move to their current employer, the pension scheme was at best one of the elements in the mix, and four out of ten were not influenced at all. Interestingly (but mindful of the low sub-sample size), Table 16 shows the indications are that employees start to pay more attention to employer pension scheme offerings when the countdown to retirement reaches the 10–20-year mark – suggesting the mid-40s–50s life stage. Conversely, offering a pension scheme to older entrants (which is likely to become more common with evolving demographics) is probably less appealing because of the long-term nature of the investment, and for younger employees is more of a hygiene factor for later in life.

At mid-SME level upwards, the incremental value of a pension scheme as a recruitment device loses momentum, unless it is particularly generous, simply because it is an expected 'norm'. However, not offering a pension scheme puts the company at a competitive disadvantage.

'The fact that a retirement plan is available is not necessarily a benefit nor an aid to recruitment. If it wasn't there it would be a dis-benefit, I think would be the way to put it.'

British Telecom

Therefore, from an HR perspective, pensions still tend to be regarded as 'on the shelf' rather than as a benefit at the time of interview – especially where there is a long qualifying period (up to two years) – and the subsequent low take-up reinforces this perception. There is more of a priority on the part of the employer to seek to

TABLE 16: Importance of a company pension scheme as a recruitment device (Base: all employees in their company pension scheme with less than five years' service with present employer)

How much importance did you place on the company pension scheme in your decision to work for your current company?

	Total	Fewer than 5	5–10	11–20	21–30	More than 30
No. of interviews	**189**	**7**	**13**	**38**	**54**	**77**
The company scheme was the most significant factor in my decision to take up my current job	16%	14%	8%	17%	17%	10%
The company scheme was one of a number of company benefits that encouraged me to take up my current job	43%	14%	38%	44%	44%	47%
The company scheme was not a factor in my decision to take up my current job	40%	71%	54%	37%	37%	43%

Source: CIPD/BLACKROCK employee survey April 2009 (see Appendix 2 for details)

[1] *Professional services, 14 employees, GPP scheme*

offer benefits that have immediate value and appeal to employees, for example childcare, free lunches, gym membership, employee discounts, training and development, and so on, and which are therefore an instant 'hit' in encouraging recruitment and retention.

Our findings suggest that employers need to be encouraged to be less diffident about the schemes offered, and to embrace and promote them within their benefit packages.

'We're trying to build stronger relationships with the HR function so that we can actually educate the HR function to be the leader on pensions communication. What's happened in the last 10–15 years with the Financial Services Act is HR people have always been told you can't talk about pensions because you've got to be registered to give financial advice. And actually what you need to be registered for is actually quite small but I don't know why, somehow the pensions people just drummed it into HR people that they can't give advice. Maybe someone like the [PMI] should get together with the CIPD and put on a course to educate HR people in pensions and what they can say.' [1]

It is only when flexibility starts to be built into the structure and delivery of the pension scheme (for the employee and/or employer) that it starts to attain real value as a stand-alone benefit, for instance:

- ability to influence remuneration by increased matched contributions
- salary sacrifice
- effective selling in of external personal financial advice and/or education.

Such flexibility goes hand in glove with the company appetite for introducing other day-to-day benefits. During the current challenging economic climate, the introduction of relatively low-cost employee benefits is seen as a means of offsetting salary increases (which are more expensive to fund).

Retention is equally, if not more, important as a business case for justifying the company pension scheme from an employer's perspective. Again, however, it needs to be regarded as part of a rewards package in order to attain 'sticking power'.

'So I think that the pension scheme is an integral part of an overall package. I don't think on its own it is highly significant one way or the other to be honest'. [2]

A further business case for company pension schemes supports more strategic, long-term manpower planning concerns for companies: by effectively facilitating exit strategies for long-serving employees (with adequate retirement packages) the organisation can control future resourcing issues.

'From a strategic perspective, if you look at long-term manpower planning, it's prudent and good management to have effective retirement planning schemes because that means it is less likely that we will have a cadre of people who are getting on in life, but who can't afford to retire and that can give you a long-term resource problem.'

British Telecom

An optimum solution is where the pension scheme is integral to a flexible benefits package. Examples of particularly successful programmes are those introduced by Towry Law and Smartstream Technologies (where more than 90% have joined the scheme).

'We have on average 9% of their salary pot to play with. The standard process is that you choose 3, 4 or 5% contribution and we match that. And then if you take certain benefits or reduce certain benefits, the excess cash will be converted into additional employer contributions. It means that people can make decisions based on their circumstances. And once a year everyone has to log on to their own portal and re-choose their benefits because people's lifestyles change. They might want to 'up' their pension contribution or increase life cover or things like that.'

Smartstream Technologies

'We run a total reward concept so there is salary, bonus, shares, share options for some people, pension plan, a SIPP, a flexible benefits programme with about ten different items, and a couple of core benefits that everybody gets, such as life assurance. Some younger, single people will put more emphasis on their salary and their flex package generally because you can convert it to points that you use on a discounted shopping website. For older people, out of all of those things in the benefits package, pension has got to be the most important, they get a really high contribution from the company so it's well valued too.'

Towry Law

1 Major corporate, 70,000 employees, closed DB, current DC)
2 Major corporate, 1,000+ employees, ex-DB, current stakeholder scheme, employer contribution)

HR/EMPLOYER AND EXTERNAL SUPPORTING ROLES

THE ROLE OF THE EMPLOYER

In contract-based DC schemes

The role of the employer (in defined contribution schemes) is typically that of administrator and information conduit.

For the most part, the only time that employer and employee are likely to converse directly about the pension scheme is at the time of interview or induction. Once employees join a stakeholder or GPP scheme, the employee/pension provider relationship or employee/IFA relationship is private, so the employer has little or no involvement whatsoever in their personal choices and contribution levels – unless matched contributions are required to be eligible. Neither do they perceive they should have (as the matter is a private one), nor would they want to have any further involvement.

Interestingly, the recent Employee Rewards Survey 2009 shows that the majority of employers (71%) do not know what funds their employees opt for.

The advent of user-friendly IFA and pension provider online portals for employees to access and manage their own funds has been welcomed by employers and has become the norm, based on the responses from employers in our research.

'My responsibility on it is basically to say to the employees here's all the contact details, it's a free service from Standard Life. If someone wants to join, I join them and I put them in the scheme they choose. You can either pick your own investments or the majority of people tend to literally just tick the box for the lifestyle fund and hope everything's fine. We try and make it as easy as possible for them. We say look, if you decide you want to do something a bit more complicated at a later date you're free to do that. Each employee

(Continue)

(continued)

gets an instruction booklet about how they can register on the website. It's completely portable so they can take the scheme with them wherever they want. All we are really, as the company, is an administrative centre to manage the deductions from the wages and payments into the scheme.' [1]

Expertise is outsourced in all but the largest companies (or those operating in the financial services sector) and there is no appetite to get involved any more than necessary.

'The pension scheme doesn't come on the agenda to be honest. We've probably made two telephone calls to the pension provider since 2002.' [2]

In trust-based DC/DB schemes

Trust-based schemes may well be a 'next generation' choice of scheme after the closure of a DB scheme. The role of the trustee/employer is pivotal in regularly reviewing the investment strategy and implementing communications and education strategy to employees. Expertise is likely to be in-house and employers have direct hands-on interaction with their members.

'It is appreciated by employees, they view us as a very strong brand and they know us and love us and trust us. They like that we run our own scheme and that people work in the office where they work, they can come along and talk to us, they know us, they believe it's safe and being done properly. They choose half of the trustees. The trustees are their most trusted colleagues. They feel that it is safe and they feel the company is providing something specially for them and the staff relations point would be weaker if we simply made available our own group contract scheme.' [3]

[1] *Manufacturing/engineering, 100 employees, GPP scheme)*
[2] *Catering, 25 employees, group stakeholder scheme)*
[3] *Corporate, Publishing, trust-based scheme)*

THE SUPPORTING ROLE OF INTERMEDIARIES

Third party advice and expertise is invaluable at the SME end of the marketplace: the role of intermediaries should not be underestimated when evaluating the opportunities for communicating and marketing to businesses. Intermediaries are a significant force in the workplace pensions arena: the majority of SMEs in our sample have their primary relationship with a local advisory firm, likely to be their accountants, insurance company, pension consultants or lawyers, who act as the 'front man' and effectively the decision-maker with regard to pension provision.

Where these relationships exist, with the exception of payroll processing and initial passing on of details, all responsibility is willingly outsourced to the intermediary on the grounds that:

- they have the expertise
- they have the independence of advice
- employers are not FSA-compliant to advise anyway
- there is insufficient in-house resource to do this
- they are usually sufficiently local to be able to familiarise themselves with employees.

Advisers will also instigate and influence reviews of pension providers and recommendations for change are usually accepted. The choice of new provider would appear to be led by advisers in these instances, with performance, charges and choice of funds more important than investment approach. ('New broom' reviews may also be instigated on change of intermediary relationship.)

'The fact that we were paying a lot of charges for a particular company and, for one reason or another, we changed accountants and they reviewed all sorts of things and one of which was the pension scheme that we were under and pointed out that actually the previous accountant and the company were actually taking something like 12.5% of the premiums rather than the 1–1.5% that you can get with a stakeholder fund.' [1]

'We went out to tender and used Mercers for that. We looked at options and then had a beauty parade and then we had a massive negotiation to get the fees down as low as we could. Fidelity won it – partly because of our international community – we thought they could better deal with that side of it. I'm not sure it's true but it's what they said at the time.' [2]

A good pension adviser is an extremely effective resource for supporting employers in encouraging take-up of the company pension scheme and other savings options: there are plenty of examples in the sample of 'best practice' scenarios in which advisers visit the workplace quarterly to hold financial planning clinics with individuals. In such cases, employers report a higher take-up of schemes and a general sense that they have met their obligations in facilitating access to best advice.

Conversely, we have seen examples where small employers who can only offer limited new business opportunities for IFAs have been left 'high and dry': in such circumstances the reactive nature of the relationship becomes non-existent and there is no impetus or incentive to move forward. This is not to say that communication and advice is not needed, but there is no business case for intermediaries to develop the relationship.

'Once we started dealing with Standard Life direct then obviously we arranged for them to come in and present the scheme to the people. The broker had already done that when the scheme was set up but then no one had seen him since.' [3]

'We used to have an intermediary – a pension adviser company – and because there was such a low take-up they just dropped us basically and so we went back to the people that actually provide the pension.' [4]

'The financial adviser has earmarked to see a few people…and I've got posters and that to put around the office.' [5]

[1] *Building/trade services, 10 employees, stakeholder scheme with 3% employer contribution*
[2] *Major corporate, 1,000+ employees, closed DB, stakeholder scheme*
[3] *Manufacturing/engineering firm, 100 employees, GPP scheme)*
[4] *Professional, 115 employees, stakeholder scheme, no employer contribution*
[5] *IT/computing, 59 employees, stakeholder scheme: salary sacrifice but no employer contribution*

THE SUPPORTING ROLE OF THE PENSION PROVIDER

The nature of the employee/pension provider relationship is essentially online: the ability to monitor accounts, amend fund choices and communicate online is considered by employers to be ideal and indeed they would view positively an extension of the online relationship (for example between the pension provider and company payroll department).

There is no particular expectation that providers will deliver the same level of face-to-face employee engagement offered by intermediaries, although there is no doubt that employers and employees could benefit from direct communication and awareness-building for their employees.

'You have so many different pension providers who…are not interested in running pensions anymore and basically just keep the schemes ticking along and really there's no active interest in them.' [4]

'It's really remote to be honest. I think we just contact them when we have the relevant people and they don't take a proactive role. I think we're just one of a number of candidates. I'd like them to be more proactive to be honest. They could probably come on site and do briefings to employees, talking about pensions. Certainly promotional literature, the benefit of a pension etc. They'd probably get a lot more work out of it and obviously money from the employees.' [1]

'(Would like) I think it's just better communication with employees and for people who are thinking about taking up a scheme. I know [Standard Life] has had a number of redundancies on their direct sales force or advisers, which can make it a little awkward or hard to get in touch with the adviser that you want to talk to.' [2]

'A lot of the time when you give people the Standard Life pack and there's six different booklets in it and all the different leaflets, people don't know where to start so it just goes in the bottom of a drawer and they never look at it. So Mercers do a simple overview and the simple application form makes it very easy for somebody to understand what it's all about and join up.' [3]

INFORMATION REQUIRED

According to our sample, the key information requirements to support employers are:

- access to a financial planning advisory source (either from an independent adviser or provider)
- clear, concise information
- interactive, user-friendly online access.

There is no doubt that, at an SME level, easy access to a financial planning advisory source would be an effective and probably a very cost-effective 'way in' to engage employees in retirement planning (covering pensions as well as alternative savings strategies).

'Well first of all there is a joining pack, which has to be professional. So anyone who joins the company is given that on day one. That is then backed up by internet website, which we keep saying is not good enough in terms of information and ability to move funds online from one fund to another fund. I mean it works, it was a bit clunky and they recognise it's not up to scratch but that is what we expect from them. [The pension provider] also comes and gives presentations to people at various times to make sure that everyone is aware about what opportunities they have. There is also a telephone helpline but most of our people, I think, do it online.' [5]

'We could find somebody to come in and talk to the employees about their pension publications or just to give them information about it so they can make a more informed choice. We could do that tomorrow, if we could find someone that's not a problem. The issue for us would be whether as an organisation we can contribute to employees' pensions.' [6]

[4] *Professional services, 27 employees, GPP scheme*
[2] *Catering, 137 employees, stakeholder scheme with employer contribution only at director level*
[3] *Manufacturing/engineering, 100 employees, GPP scheme)*
[4] *Large corporate, 130 employees, stakeholder scheme*
[5] *Major corporate, 1,000+ employees, closed DB, current stakeholder*
[6] *IT/computing, 11 employees, no pension scheme*

> *'I want access to the facts, materials I can read up on and not a load of jargon – and dealing with someone who knows the package inside out and can easily answer questions.'* [1]

Information in the workplace to generate interest, reinforce the need for engaging with pensions and keep the issue top of mind is not generally in place: there is no resistance to this – it is just that pension providers/intermediaries tend not to provide such material in a digestible format.

> *'I think it would be good to have posters around so that people are reminded of pension arrangements, are reminded about the relative paucity of the state pension arrangement on its own.'* [2]

Watson Wyatt has taken a lead on information provision by launching a web portal designed to help employers and pension scheme trustees educate people about retirement provision. Users will be able to review current savings and retirement plans and take necessary actions, as well as learn more about financial, savings and retirement matters (Occupational Pensions Magazine, December 2008).

Most pension providers now offer access to a web portal as a source of information/education. Some also provide online tools, for example, BlackRock's online calculator enables users to set a target income in retirement and estimate how much they will need in order to achieve it.

Table 17 shows that written material is the single most important means by which employees receive information about their pension scheme, so there is an imperative to ensure that it is as user-friendly as possible. The CIPD/BlackRock survey also confirms the value of face-to-face meetings in informing employees.

TABLE 17: Information sources used by employees about their pension schemes (Base: all employees in a company pension scheme)

Which of the following have helped to inform you about the company pension scheme you belong to?

		Number of years to retirement				
	Total	**Fewer than 5**	**5–10**	**11–20**	**21–30**	**More than 30**
No. of interviews	**461**	**34**	**54**	**116**	**147**	**110**
Written material such as brochures explaining the scheme	69%	76%	67%	72%	69%	63%
One-to-one meetings with independent financial advisers or educators brought in by the company to explain the scheme	23%	9%	35%	28%	22%	17%
Face-to-face seminars/meetings with the pensions provider arranged by the company	24%	32%	22%	18%	28%	22%
HR/internal meetings explaining the scheme	20%	9%	19%	17%	21%	27%
Work colleagues	25%	12%	24%	24%	28%	28%
My line manager or team leader	11%	0%	17%	6%	10%	17%
Company intranet	22%	21%	15%	24%	22%	25%
Other people outside my company	6%	6%	4%	8%	9%	1%

Source: CIPD/BLACKROCK employee survey April 2009 (see Appendix 2 for details)

[1] *Retail, 10 employees, no pension*

[2] *Professional services, 100 employees, matched contribution stakeholder schem*

TABLE 18: Motivations to save more for retirement (Base: all employees)
Which of the following have helped to inform you Which of the following would encourage you to save more towards your retirement?

	Membership of company pension scheme		
	Total	**Yes**	**No**
No. of interviews	**840**	**461**	**379**
A better understanding of the pension scheme I currently pay into	22%	28%	15%
Regular updates about the value of my pension	29%	37%	20%
Information or advice about the amount I need to save each month to ensure I can retire comfortably	32%	34%	29%
Knowing the size of the pension pot I have got to achieve to retire comfortably	32%	33%	31%
Automatically deducting pension contributions from my salary (%)	17%	12%	23%
'Save More Tomorrow' schemes (where a proportion of any future pay rises are automatically paid into your pension)	15%	14%	16%
None of these	30%	26%	35%

Source: CIPD/BLACKROCK employee survey April 2009 (see Appendix 2 for details)

The value of clear, informative communication is illustrated in Table 18: the ability to plan ahead and know the 'end game' is likely to influence contribution levels. Furthermore, those not currently in a company pension scheme would also respond positively (whether or not in a pension vehicle) to foreknowledge – and automatic salary deductions are relatively appealing.

Such levels of interest are not surprising, given that only 28% know how much they need to save each month or what size of total pension pot they need to build up to live comfortably after retirement (see Table 1, page 15).

LOOKING BEYOND

This section looks at employers' responses to the forthcoming 2012 legislation, their wish-list and concerns for the future.

This section has particular relevance to public policy-makers and employers.

ALTERNATIVE OPTIONS

For the most part, the line between employer/ employee responsibility is drawn at the provision of a pension scheme. Further to this, other options may be encouraged and considered to be a desirable element of long-term planning, but they are distinctly personal choices, that is, not something that employers have any appetite for delivering.

Apart from the most philanthropic organisations in our research, alternative savings options have not been considered – mainly because the expertise for pensions and subsequent member relationship is outsourced: there is little evidence that pension providers have attempted to engage employers in offering alternative 'routes into retirement'. Similarly, intermediary discussions are at a one-to-one level with individual employees rather than with the employer.

So, the expertise is not usually in-house. Clearly, there is an opportunity for thinking 'outside the box' that has not yet been capitalised upon.

'I think the idea of some kind of reward structure is interesting – for instance if you invested in a pension scheme and 9% of your money went into the pension scheme and another 1% went into, say, premium bonds or something or a lottery scheme. You used to put it into premium bonds and obviously your money stays there and maybe that part of it doesn't accrue any more interest onto it but you've got a chance of winning a couple of thousand pounds or so. So that's the encouragement that gets people excited about investing their money in that but even if it's a small percentage chance of winning something then it is there. It's dangling that carrot of a reward if people were to invest.' [1]

It is only at the most sophisticated level of organisation that alternative options to pension schemes are considered a practicable and attractive option.

'I think there are lots of other products out there which could be of interest to long-term retirement provision. ISAs work well and most of us do them if we can. It's only £7,000 a year or something so it's not going to be a complete answer but it's efficient; but we pay for ISAs if we do them as individuals in all sorts of fancy fees and initial charging. We could bring a lot of these private products within the corporate sector. You know, we could buy them at institutional rates.' [2]

'We did talk a few years back about whether we'd want to offer some sort of mortgage saving type schemes for younger salaried employees so rather than pay into a pension for the first three or four years or whatever, we'd do that. And we just decided that, to be honest, it was adding a layer of complication that was probably unnecessary. If someone of that age doesn't want to join the pension scheme and wants to save for their mortgage, well they don't join the pension scheme. Their only detriment to that, I guess, is that they're missing out on a company contribution we would otherwise have made.' [3]

'We've got x number of people administrating the company rewards package and the demands can only go up and the last thing we want to do is employ another overhead. So no, I don't think we would offer a multitude of things. I think we would just say, 'The pension is what we have to offer. We're not going to offer anything else at all.' If there is no kind of tax efficiency to it for either the company or the employee, why on earth would we?' [4]

[1] Manufacturing/engineering, 34 employees, stakeholder non-contributory scheme
[2] Major corporate, 1,000+ employees, closed DB scheme, current stakeholder scheme)
[3] Major corporate, ex-DB, current stakeholder scheme
[4] T/computing, 90 employees, GPP scheme

The need for an alternative long-term savings vehicle is underlined by the 'no confidence' vote expressed by employees not in a company pension scheme: only one in three agree that pensions are the best way of saving for retirement.

This supports survey findings from Towers Perrin (January 2008) in which more than a third of UK workers say they want the option of saving in a non-pensions savings account.

An alternative option in relation to maximising ISA entitlement is a very real attraction for employees at a personal level: following the Budget announcement of enhancing the savings threshold to £10,200 per annum for over-50s with immediate effect, 59% of employees in this age bracket say that they definitely/ may take advantage of this as a means of saving for retirement (see Table 19)

Alternative means of saving for retirement are likely to evolve as the industry seeks to develop solutions that are both inherently flexible and which respond to members' changing requirements at different stages of their lives (including periods of financial 'hardship').

With this in mind it is interesting to look at a recent survey conducted by the Investment Company Institute (ICI)* of the 401(k) defined contribution model in the United States. The survey assessed investors' behaviour in reaction to the extreme financial market volatility from January through to October 2008. As part of the plan, members are permitted to access a hardship loan.

During this period, only 1.2% took such a loan – this level of withdrawal activity is in line with past years' experiences among the record-keepers and consistent with the rate of withdrawal activity observed in the EBRI/ICI 401(k) database in 2000 (at the beginning of the 2000–2002 bear market in equities). Contrary therefore to a widely anticipated increase in loan withdrawals during the financial turmoil of 2008, it would appear that members valued the 'peace of mind' that the inherent flexibility in the plan provides.

'There is this obsession with pensions managers, 'Oh no, no, a pension is sacred.' I think companies are getting away from that. There are more and more companies offering a flex programme now. I want to look at it again: I think there must be better ways. Either give people complete flexibility, saying, 'here's the money, do what you want with it, but remember the responsibility for your retirement is yours so don't come crying to us at the end of your career when you realise you haven't saved enough.' Or use a choice-driven system to get people more engaged about their pensions. For example, you can have a 10% pension contribution or you can have 5% for your pension and 5% to spend on other things…Does anybody do that? They say, 'If you give us 5% for your pension we'll give you 5% for your pension, or if you give us 3% we'll give you 6%', but they don't actually say, 'Well, tell you what, we'll give you 10% for your pension or you can have 5% in cash but no pension.' If you are at the young end of the market, would you rather have 10% of your salary put into a pension scheme you can't touch for 40 years or would you rather have some money for a new house?'

TABLE 19: Likelihood of increased savings in ISA as a result of the Budget (Base: all over 50 years old)
As a result of the Budget, the ISA savings limit has been increased to £10,200 p.a. How likely are you to take advantage of this to invest more money in ISAs as a means of saving for retirement?

	Total
No. of interviews	**199**
Definitely will	19%
May do	40%
Probably not	22%
Definitely will not	18%
Don't know	1%

Source: CIPD/BLACKROCK employee survey April 2009 (see Appendix 2 for details)

**Source: ICI Retirement Saving in Wake of Financial Market Volatility – December 2008*

LOOKING AHEAD TO 2012

.The key drivers behind employers' reactions to the proposed new legislation are:

- **Compliance:** companies will do what they have to do. For small companies, where a pension scheme is not yet in place, employers will have to introduce either a pension scheme or personal account for the first time. For larger companies, it will involve making sFUure that their schemes are compliant enough to be exempt, for example instituting an appropriate default fund, or reconfiguring payroll systems to accommodate the new base calculations for employer contributions.

'The one area that will give us an irritating issue is that to demonstrate that you've met the minimum requirements you have to calculate a percentage of band gross earnings whereas our scheme, which is in general hugely more generous than the minimum, is based on basic salary.' [1]

'There is an added level of complication in administering the payroll systems having to take into account commission and other payments, we operate on basic pay at the moment.' [2]

- **Control:** there is a resistance to having anything imposed, therefore processes are being, or will be introduced before the due date in their own time frames (although the current economic situation has had a negative impact on forward planning).

'Had 2008/9 not happened I would have been recommending to my management team that we start a strategy of either promoting our current plan to try and increase our membership or increase our take-up rate over the next four years so that we weren't taking any big hit in any one year because what I want to avoid is doing nothing until the end of 2011 and then having a huge hit of everyone joining a pension plan in 2012.' [3]

- **Cost:** which may affect the level of employee contributions required, or require a review of the reward strategy to fund the increased financial commitment.

'We may well need to look at some of the other high-cost insured benefits, for example PMI to help fund increased pension costs – we'll have to give serious consideration to it.' [4]

- **Employee consultation:** employers want to ensure that their employees are 'on board' with scheme changes.
- **Simplification:** there is no desire to have more than one scheme in place; where practicable it is expected that existing schemes can/will be tweaked to incorporate the new requirements.

'But the more we read and hear about these personal accounts that are coming in, in 2012 we would like to get the uptake higher, if not everybody, which would then mean we hopefully wouldn't have to go along the route of personal accounts and having two different options.' [5]

'We'll either have this period where for the first period of time they're in personal accounts before moving into the DC pension scheme, or we will have to trade down the defined contribution scheme that we've got at the moment.' [6]

Not surprisingly, where basic pension schemes with no employer contribution are in place at the moment, the new pension regulations scheduled for 2012 will require an overhaul of current practices. (The Employee Rewards Survey 2009 found that

[1] *Corporate, trust-based scheme with auto-enrolment in place*
[2] *Corporate, trust-based scheme*
[3] *Corporate, trust-based scheme*
[4] *Corporate, trust-based scheme)*
[5] *IT/computing, 150 employees, stakeholder scheme, employer contribution*
[6] *Major corporate, closed DB, current DC scheme, employer contribution*

the introduction of compulsory employer pension contributions would have an effect on 42% of companies.)

However, the level of awareness, interest and engagement among employers at this point in time is minimal; only a few companies in our sample had begun to consider a defined strategy for a smooth transition. These companies are most likely to have an integrated, proactive scheme in place already and will look to:

- phase in employee contributions gradually over the next few years to avoid a 'big hit'
- ensure parity across the board so that discrimination is minimised.

'We've looked at it to see what's coming in and it's obviously better to be ahead of it than behind it. So we may as well start the budget and having the costs in now, rather than later…it's tweaking more than anything too drastic. There's some extra costs there but if we implement some things over the next couple of years then we'll be already living with that cost.' [1]

'We will start to phase in a pension scheme based possibly on salary sacrifice. I mean we may do it instead of a pay increase for instance. Just to get people used to it really. People do enjoy generally regular cost of living increases. So it could be done as part of that…for two years running we'll do half a cost of living and half into a pension.' [2]

For these companies, the new regulations often offer an opportunity to encourage more employee engagement and the cost of implementation is viewed positively within the company ethic/philosophy of joint responsibility.

'If our current provider of pensions are able to set up savings accounts so people can pay directly into that having some kind of salary sacrifice, whether it's 3% or 5% of their salary siphoned off into this account automatically every month…and depending on the interest rates that that offers, people may well take it up. I think the good thing about doing it that way is that people don't necessarily notice it when it's taken directly from their salary because as long as it's not a huge amount.' [3]

It has to be said that at this stage, it is too early to tell exactly how employers will react to the new regime. Clearly from a compliance point of view they recognise that something will need to be done; however, the new approach is recognised to have in-built flaws that will present challenges in the implementation:

- young, retail-based workers who are likely to stay with any employer for a short period of time

'I'm probably more concerned about the retail environment than I am for any other part of our workforce.' [4]

- the handling of temporary/seasonal/migrant workers from overseas
- keeping tabs on employees' movement from one job to the next
- where employers contribute 'above minimum' stakeholder contributions at the moment, there may be a temptation to reduce the level of these contributions to the minimum levels required to help fund the increased cost burden. The potential cost is a concern to companies.

'The thing is, particularly in our industry and our position in the industry, we compete with a lot of people who are very small outfits through to quite large outfits and smaller companies in particular do not do a lot of the things that we are required to do.' [5]

[1] *Professional, 27 employees, GPP contributory scheme*
[2] *IT/computing, 50 employees, closed DB, basic stakeholder scheme*
[3] *Manufacturing/engineering, 34 employees, non-contributory stakeholder scheme*
[2] *Corporate, retail, trust-based scheme*
[3] *Building/trade services, 40 employees, group stakeholder scheme*

'The 2012 scheme that's going to come in place is just going to put more burden on business. In ten years since I've been running our small business the cost and constraint of regulation is just getting unbelievable; it's just scary to be honest. When I came ten years ago we were quite a strong company making a fair profit and, you know, this last couple of years we've struggled. It just stops probably future investment in the business because 3% on your wage bill which is probably in the region of £400,000–£500,000 a year is a substantial amount of money.' [1]

Notwithstanding this, there is much scepticism that the new personal savings accounts will be as successful as is hoped, not least because of the innate resistance to being dictated to, and the financial pressures on (particularly low paid) employees who will seek to opt out if possible. (The Employee Rewards Survey 2008 found that six out of ten employers thought auto-enrolment would not solve the current pension crisis.)

'We've talked with some employees about this just to gauge their thoughts more than anything else. And the reality was they were upset that they were going to be forced to do something about it. And I can accept that if somebody's on £12,000 to suddenly say 'oh by the way you've got no choice we're going to deduct a further X% off you'…And rather than say 'oh great that's a nest egg', the ones we spoke to went 'oh to hell with this. Is there any way we can get round this?' [2]

The proposed compulsory nature of employee payments is equated to National Insurance contributions: on one hand, NI contributions have been the traditional vehicle for funding one's State pension; on the other hand, the existing NI system could be marshalled into accumulating individual contributions, or to incentivise companies to contribute more to their employees.

'Maybe they could get some relief on National Insurance or some tax incentive or deduction from corporation tax that could be brought in to encourage firms to actually make more contributions themselves – maybe some other inducement could actually encourage more firms to think, oh that's a good way of rewarding our employees.' [3]

While the principle of encouraging employee engagement with retirement planning is applauded by the employers in our research, the implementation has to be supported by thorough education, flexibility and choice of savings vehicle.

'And it's got to be some scheme where they're going to get some return because it's no good saying to people, right, you must just put so much in a month to the building society at the current % rates? What's the point? It's got to go back to being some sort of government scheme. So, hello? I thought that's why we paid National Insurance but we'll just have to pay more of it probably. But I think it needs to be into an independent firm…because people don't trust government any more.' [4]

'I would say, look, have this money transferred into an ISA. I would recommend that wholeheartedly and I would promote things like that but they need a choice. They do not like being dictated to.' [5]

'I think with these personal accounts coming online I think you might find that occupational pension schemes disappear and they are just replaced with personal accounts because it's easier to do what you need to meet the minimum than it is to go in above and beyond that. And I think you might find that the personal accounts become the norm and the occupational pension scheme offering enhanced benefits may disappear. Certainly at, say, our weekly paid factory level. But then possibly an enhanced pension scheme for management level.' [6]

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[1] *Catering, 25 employees, group stakeholder scheme, no employer contributions*
[2] *Retail, 250 employees, stakeholder scheme with graduated employer contributions*
[3] *Professional services, 55 employees, group SIPP, matched contribution*
[4] *Professional services, 48 employees, closed DB scheme, GPP scheme*
[5] *Building/trade services, 80 employees, GP stakeholder, employer contributions start after one year*
[6] *Manufacturing/engineering, 130 employees, GPP scheme*

> *'It's a bit like most of the smoking laws, first of all they try to persuade you with little stickers on cigarette packets, which says by the way these are killing you. And when everybody ignores that they finally say, okay, let's not smoke in public places and they bring in laws.'* [1]

It perhaps does not bode well for personal accounts that only 7% of employees would choose personal savings accounts from their employer, given the choice of several ways of saving for retirement. Perhaps not surprisingly, defined benefit schemes are the most popular choice – but the second preference is for the cash so that they can decide for themselves (see Table 20).

The principle of automatic deductions is not really the issue here. Indeed (as shown in Table 21) only a minority of employees say they actually resist the principle in relation to pensions: it may well be that the concept of personal savings accounts in the workplace is, as yet, understandably unfamiliar as an option.

Concerns about the practicality and effectiveness of the personal accounts scheme were highlighted in the ACA Smaller Firms Pension Survey published in 2008; although the interviewing period for that survey was undertaken before the main brunt of the 'credit crunch', it was already clear that the Government's strategy for implementation – and the knock-on effect in terms of businesses' response – presents enormous challenges in terms of administrative workability, the need for communication, the reluctance of firms to promote workplace pensions and the potential impact on existing schemes. These findings have been fully supported by this survey.

TABLE 20: Preferences for employer-provided retirement vehicles (Base: all employees)
If your employer could make available a choice of how you save for retirement, which option would you take up?

	Total
No. of interviews	**840**
Defined benefit pension scheme	36%
Defined contribution pension scheme	11%
A personal savings	22%
Account where money is taken out automatically each month into a (cash-based) savings account	7%
Buying into a company share scheme	4%
Buying Individual Savings Accounts (ISAs) through a group company scheme	5%
I would rather have the additional money and decide myself	21%
Don't know	14%

Source: CIPD/BLACKROCK employee survey April 2009 (see Appendix 2 for details)

TABLE 21: Attitude towards automatic pension deductions from salary: agreement with statement (Base: all employees)
Employers should deduct pension contributions automatically from employees' salaries.

	Membership of company pension scheme		
	Total	**Yes**	**No**
No. of interviews	**840**	**461**	**379**
Agree completely	14%	18%	8%
Agree somewhat	35%	37%	34%
No opinion	29%	26%	33%
Disagree somewhat	14%	12%	16%
Disagree completely	8%	7%	9%

Source: CIPD/BLACKROCK employee survey April 2009 (see Appendix 2 for details)

[1] *Professional services, 35 employees, GPP scheme*

FUTURE HORIZONS

The pension arena is not expected to change significantly in the next five years but, looking beyond this, regardless of the size of business, practitioners have a wish list of simplified legislation, greater flexibility, more effective state delivery of basic retirement provision coupled with a more informed workforce.

'Employers will need to be more proactive around pension planning with their employees. Much stronger messages, much more proactive and working with the Government and pension providers to do that.' [1]

'I would have a two-tier system where there is a salary-linked pension plan which caps out at, say, £25,000/£30,000, which the company runs for people, and then you can have some of the nice add-ons if you earn in the stratospheres.' [2]

'I would say that from my point of view both as a pension scheme member and as an administrator of a pension scheme, I would look for simpler regulation. Ever since Maxwell the pensions industry has been gagged and tied with over-regulation to try and stop one rogue or stop another rogue. I think the regulation is so complex now that it really is difficult. I really do struggle to keep up with it and understand the regulation.' [3]

'I think we're going to have a decade of double speak now where the Government is desperate to tax everything that moves and also want to talk about people making their own provision. They've created a benefits culture that is so complicated I've had employees move from part-time to full-time and earn less than they were earning before because of the benefits. I've got an individual who has got a problem with some allowance he has been receiving, he has a disabled wife and something or other else and there is an interaction between three different kinds of benefits he doesn't understand, all this means testing basically says if you do less yourself the Government will give you more. So to change they're going to have to say, 'right, you're only going to get a fixed pension in time and irrespective of age, work history and anything else, if you want more you've got to do it yourself.' I want very, very light government, I want a nice simple system. I don't want incentives for people not to look after themselves as they have now.' [4]

[1] *Professional services, 83 employees, non-contributory stakeholder*
[2] *Major corporate, 1,000+ employees, closed DB scheme, current stakeholder scheme*
[3] *Manufacturing/engineering, 450 employees, ex DB, GPP scheme*
[4] *IT/computing, 90 employees, GPP scheme*

IDEAL SOLUTIONS

Employers' perceptions of an ideal solution moving forward attempt to resolve the inherent inflexibility of current pension legislation with employees' changing needs. Their suggestions reinforce the desirability of pension schemes being integral to life-stage-based reward packages:

- wrapping pensions within reward packages

'Or to give an employer the option of opting out of that for certain employees, I reckon the employees choose [anyway] to opt out, but give them something of a similar value that is of more real day-to-day advantage to them. I'd love to see a pension being part of a flexible benefits package. So people can choose when it's right for them to take up a pension. But I think that forcing it down everybody's throats and forcing everybody to save, I'm not sure.' [1]

'I would also see a lot more personal pensions or stakeholder pensions being taken up by companies rather than having in-house schemes. I think just offering access to a scheme and contributing into it is the way forward. And then there is a move for IFAs to partner with providers that give access to an employee benefits scheme portal. And they're wrapping that around a pension scheme because HR and finance representatives haven't got time to speak to six different providers to get the benefits package sorted.'

Smartstream Technologies

- creating a more flexible suite of financial options – including non-pension products – targeted towards employee life stage and priorities

'You'd have to say a better solution is putting your money into ISAs and whatever and waiting to see, whether you stay in a lower tax group because with the limits now on pensions, you can put up to £250,000 in any one year; you might as well build up a pot in an ISA and then if you do get to be in a senior position, your career progresses, then put it in then and then you can gross it up… in five years I think there won't be any final salary plans left. I don't think there'll be much change on defined contribution to be honest. I think 20 years down the road then I think we will see more older people in the workplace and a more flexible approach to working.' [2]

'We were starting to design a scheme that would have allowed employees who are not yet homeowners to have money that would have gone into their pension plan instead diverted into a bank account that would have been there specifically for them to save up to put a deposit on a house and the company would have contributed to that as well as the individual. Then once they have bought their first home then the contributions revert to going into the pension scheme again. We actually started work on doing it and it would have been a really good employee benefit. We have had to stop doing it because the new regulations which will bite from 2012 forbid the company from doing anything which gives people an incentive not to be paying money into the pension scheme and we would be specifically giving them an incentive not to join the pension scheme by giving them something that is more useful to them.' [3]

[1] *Retail, 200 employees, stakeholder with graduated employer contributions)*
[2] *Major corporate, closed DB, current DC)*
[3] *Corporate, trust-based scheme)*

'I think some such plan still has a part to play. My worry is that it seems to be the only product that is available for long-term provision. I would still have something of the kind and even if we drop below 90% participation it's still doing something for the majority. I just think we need to put more creative thinking into additional vehicles which will allow a more flexible recognition of real life as people go through the different phases. We need to take a more holistic view of needs of which pension would be only a part and we need to come up with other products, and then we need to gear all that to a greater financial awareness for the average employee.' [1]

- giving employees the means to take full responsibility for their own choices

'It's borderline whether we would offer a pension if we were starting from scratch. An ideal is I think what we would do is we would have more money but a facility for people to save if they wanted to which we would buy on a bulk basis at a cheaper rate than they could buy on their own.' [2]

'The only thing I would say is now you want that level of flexibility in that pension scheme because some people might want it when they're 50, some might want it when they're 55, some might be happy to have it when they're 70…Some people might want the biggest pension they can have on day one…But I think that is where you have got to let people have some responsibility with it really.' [3]

This is a route already adopted by, for instance, British Telecom:

'We've introduced flexibility. For example, a lot of people prefer more money when they've just retired than when they're in their eighties so we've actually created an option where people can give up future pension increases in exchange for a higher starting pension…So effectively they give up some of the guaranteed pension increases and have this up front as a bigger pension. Because it's a bigger pension, the 25% tax-free cash is a bigger cash sum as well. So people tend to end up with more cash and a higher starting pension and are taking a risk on future inflation.'

Until the mantle of responsibility swings back towards state provision, employers will (in most cases, willingly) continue to deliver a 'duty of care' to employees as they always have done. The latest Employee Rewards Watch Survey published by Thomsons in May 2009 identifies that 91% of employers say their strategic objective for having a pension scheme in place is to provide employees with adequate funding for retirement. However, comments made by two major corporate participants best sum up the widely held view:

'I'm a pensions person but in terms of the broader business issue, I would probably say I'd rather have pensions off my agenda and looked after either by the State or through some compulsory system where everyone's the same, so that it's not part of a competitive rewards package and I don't have to worry about it; I'd know that everyone's looked after in retirement and I'm able to think about other ways of motivating and incentivising them.' [4]

'I think it is really sad that 20/30 years ago occupational pension schemes were pretty much everywhere, they worked okay and most people in almost every industry retired on a reasonably healthy level of income. With all the reforms that have been brought in, basically since 1978, we've almost destroyed it. There are very few DB schemes left open and typical DC schemes have contributions at seriously inadequate contribution levels; I could weep for the way that we have broken down and spoilt something that actually worked very well before anybody tried to improve it.' [5]

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[1] *Major corporate, 1,000+ employees, closed DB scheme, current stakeholder scheme)*
[2] *Major corporate, closed DB, current DC)*
[3] *IT/computing, closed DB, GPP scheme)*
[4] *Major corporate, closed DB, current trust-based DC)*
[5] *Major corporate, trust-based DC scheme)*

IMPLICATIONS OF THE FINDINGS

This section outlines the implications of the research for employers, employees and government.

This section is of relevance to all the above parties and the pension industry.

IMPLICATIONS FOR EMPLOYERS (PRIMARILY HR FUNCTIONS)

SMEs
At the smaller SME level, it is unlikely that many employers can afford to offer reward packages with any quantifiable financial value and benefits are more likely to be low cost/non-financial (for example flexible working hours, additional holidays, car parking, and so on). Therefore, pensions are viewed as a stand-alone product rather than as part of a wider reward package. And among the smallest employers, the existence of a company pension scheme is simply paying lip-service to the need to be compliant. These businesses typically have in place simple, contract-based schemes with a smaller number of employees; staff recruitment is more occasional and 'one-off': as such the pension scheme has no significant role to play as a recruitment device.

Pensions are a passing topic of conversation at the recruitment stage but not likely to be revisited as a strategic HR priority at a later date.

The advent of auto-enrolment and its implications for compulsory employer contributions (to either an existing workplace scheme or to personal savings accounts) will represent another external event thrust upon employers, and as yet our research shows that SMEs perceive it is too early to start assessing the financial implications. This future requirement may well present a significant 'wake-up' call and cause employers to level down existing arrangements to help fund their new financial commitments. (The typical SME stakeholder scheme has a low level of take-up, and the financial implications of auto-enrolment/employer contribution represent a major issue for SME businesses.)

What are the implications for SMEs?

- Our research indicates that there is a need for HR to improve their knowledge and skills with regard to the importance of pensions to both the organisation and its employees. To achieve this, HR departments need more support to feel more confident about discussing pensions with employees in terms of what they should/could be saying, so that employees understand and appreciate what the organisation is doing and the value of the pension scheme as an employee benefit.
- There is a need for more low-cost, low-involvement innovation to maximise the value that can be generated from employer/employee pension contributions, for example:
  - salary sacrifice schemes (where employees opt to take a reduced gross salary with the difference being their contribution into the pension scheme: there are significant NI savings for both the employer and employee in this approach)
  - 'Save More Tomorrow' schemes (where future salary increases are fully or partially paid into the pension scheme)
- Overall, the implications of the research for SMEs – who represent the largest sector in terms of the number of British businesses – clearly point to the need for greater support – in terms of awareness and training for themselves, informed communications and messages for their employees and simple product architecture.

Large corporates
The pension schemes in place in larger organisations are more likely to have higher levels of (office-based/professional/managerial) employee take-up already but, where relevant (for example in retail, manufacturing, and so on), these still face the problem of mass workforce engagement looking ahead to 2012. With only two years to go before the planned legislation comes into effect, some companies in our sample are seeking to gradually roll out auto-enrolment, ensure that their schemes are compliant and look for satisfactory 'entry' level product solutions alongside their existing schemes. (This is particularly the case where trust-based schemes are in place.)

Increasingly, pensions are being viewed as an element of an overall flexible rewards package and our findings suggest that this is both necessary and inevitable as employers seek to develop packages that evolve with employees' changing lifestyle needs.

- The major organisations leading the way on flexible employee benefits packages do present very good 'best practice' role models.

All employers would be well advised to ask themselves 'What is our pension trying to achieve?' in order to establish strategic objectives for the way in which the pension scheme might best support their business and brand objectives.

Evaluating the role and value of the pension scheme in terms of overall business and brand objectives is likely to be more effective if it were assessed by means of recruitment, retention and engagement metrics and not just take up and contribution

What are the implications for large corporates?

- While employers have no appetite for complicating their own schemes and systems by taking on the responsibility for alternative financial or savings products (for example ISAs), there is a recognition that such savings vehicles may well be a more attractive 'way in' to encourage employee retirement planning. And our research shows that there is a willingness to provide access to such (third party) products, which may be relevant to employees.

- One of the most important contributions that employers can make is to provide an infrastructure of retirement planning information, with access to specialist, expert support and advice from their external partners (be they IFAs and/or pension providers) to give employees the means to take full responsibility for their own choices as well as reinforcing their commitment as caring employers.
- As with SMEs, where not already introduced, there is an opportunity for more low-cost, low-involvement innovation to maximise the value that can be generated from employer/employee pension contributions, for example: salary sacrifice schemes, 'Save More Tomorrow' schemes, graduated contributions.
- HR departments would benefit from more support (from external partners) to improve their knowledge and skills; being better equipped to discuss pensions with employees will help employees understand and appreciate what the organisation is doing in this regard, the value of the pension scheme as an employee benefit and the importance of retirement planning.
- Pension schemes only acquire any value when employer contributions are made and larger SMEs/corporates typically offer schemes that aim to support and encourage employees to engage with their retirement planning.
- The findings show, however, that some employees – especially younger/lower paid/casual workers – choose not to belong to schemes with potentially lucrative long-term financial benefits. Getting under the skin of why this is the case and implementing initiatives to improve employee engagement is one of the main challenges facing HR and reward specialists in companies today.

- The research suggests that while employees recognise the importance of retirement provision, practical and attitudinal obstacles can prevent them from belonging to their employers' pension schemes. **The key reasons for not contributing to a company pension scheme relate to:**
  - a perception that it is not worth joining the scheme of an employer they may not stay with for long; not surprisingly, this is the most common reason among younger, casual, lower-skilled workers
  - a scepticism about the long-term security of their employer
  - affordability
  - an underlying assumption that 'at the end of the day', the State will provide.

- Retirement planning often takes second place to other, more pressing financial concerns and is not focused on until it is perceived to be too late to provide an adequate income.
- Furthermore, pensions are also fraught with complexities and jargon, which create suspicion and mystique. One of the perceived drawbacks of a pension is that the end result is dictated by forces beyond an individual's control (for example pension provider failings; legislative changes, and so on).
- But employees do worry about their retirement: our survey shows that one in three employees have any sense of confidence about their retirement provision, and 60% of employees over the age of 50 say they are worried about the amount of money they will have to retire on.

IMPLICATIONS FOR EMPLOYEES

Our research suggests that while employees recognise the importance of retirement provision, practical and attitudinal obstacles can prevent them from belonging to their employers' pension schemes (see 3.4, Table 13, key reasons for not contributing to a company pension scheme).

- The most challenging – and the largest – employee segment comprises blue collar, retail-based, young, casual workers (who are least likely to be members of pension schemes). For these employees:
  - there is a need for them to be encouraged to engage with their responsibility for funding retirement, via workplace media/communications and national campaigns, from an early age
  - retirement planning must be communicated in language and formats that are simple and accessible
  - products also need to be simple and accessible: employees have more faith in straightforward savings vehicles than 'intangible' locked-away pension schemes.
  - portability is key: disengaging the savings mechanism from the employer is crucial to encouraging take-up but the education required to accompany the introduction of personal savings accounts should not be underestimated.
- For employees who do contribute to pension schemes:
  - regular reviews that help individuals to stay 'on track' towards adequate retirement provision are of key importance.
- Our research shows that encouraging employee engagement demands a four-way relationship between the individual, the employer, external advisers/providers and national policy.
- This research also shows that employees start to focus on retirement planning after the age of 40, when retirement age is more prominent on the horizon. Changing social dynamics (for example funding children's education/getting children onto the property ladder as well as the prospect of working longer than expected) have served to push back the point at which employees are able to commit financially to their own futures. The end result is a sense of fatalism about the inadequacy of retirement provision and pragmatic solutions, such as continuing to work after retirement age to supplement income, or downsizing to release equity.
- Employees need to be encouraged, supported and incentivised to save for their retirement at a much earlier age to maximise their investment and achieve adequate financial provision.

IMPLICATIONS FOR THE GOVERNMENT

In relation to SMEs

- The research clearly indicates that SMEs would benefit from greater support in terms of awareness and training for managers, informed communications and messages for their employees and simple product architecture.
- Factors likely to determine the success of auto-enrolment into personal savings accounts (or existing contract-based schemes) will be not only affordability but simplicity of administration/ minimal employer involvement. This underlines a clear brief to the Government for the design and implementation of personal savings accounts from an employer administration perspective.
- Incentivisation of low-cost (to the employer), low (employer) involvement pension products could help maximise the value that can be generated from employer/employee pension contributions, for example salary sacrifice schemes, 'Save More Tomorrow' schemes and graduated contributions.

In relation to large corporates

- The implications of the findings for public policy in relation to corporates relate more to the need for flexibility and freedom to implement their 'duty of care' reward packages with less restriction as well as consistency of policy moving forward, that is:
  - Clarity of information with regard to the practicalities of auto-enrolment for younger/casual/ temporary workforces: none of the employers in our research are anticipating the advent of new legislation with any expectation that it will solve the problem of engagement completely.
  - Employers need to feel confident that a change of government will not overturn or significantly amend the proposed legislation and consequently make redundant any action they undertake.
  - Employers need to be 'brought on board' more effectively: while auto-enrolment is accepted as a theoretical solution to employee engagement, the onus is felt to have shifted too much to the employer.
  - Removal of barriers for employers to introduce schemes that support employees' immediate needs is a cause for concern. (With the advent of 2012, employers will not be able to introduce schemes that may divert money away from pension provision.)
  - The infrastructure of education (and in some cases, advice) provided by companies (with support from their external partners) needs to be delivered within a broad-based national initiative to educate and inform consumer 'best practice'.

With longer-term horizons in mind:

- This research identifies a requirement for a more equitable state pension product, which possibly incorporates National Insurance contributions and which balances out the responsibility more evenly between the State and employers.
- Employers would like a more flexible pension product (particularly in relation to the drawdown /annuity mechanism), which is felt to be a disincentive to long-term saving by employees (because of the possibility of them never reaping the full benefit of the investment).

Employees

- Our research shows that employees start to focus on retirement planning after the age of 40: the task for the Government is to engage and inform consumers about the need to plan for their retirement, the level of savings necessary and options available to them at an early age (with the same weight as 'Drink Driving' and 'Smoking Kills' campaigns). The challenge is that such campaigns have to fight through a barrier of suspicion and mystique generated by the perceived complexities and jargon associated with pensions. (One of the perceived drawbacks of a pension is that the end result is dictated by forces beyond an individual's control, for example pension provider failings, legislative changes, and so on):

– One in ten employees in our research still think that they will be able to rely on a State pension when they retire.
– Retirement planning must be communicated in language and formats that are simple and accessible.
– Policy-makers must not underestimate the amount of education and operational support required to accompany the introduction of personal savings accounts.

CONCLUSIONS

CONCLUSIONS: IS THERE A FUTURE FOR WORKPLACE PENSIONS?

Yes. Most of the HR practitioners consulted within the scope of this project agree that:

- The future of the workplace pension will be a simpler, DC product, typically contract-based, especially for SMEs. Larger organisations are also moving towards the simplicity and fiscal controllability of contract-based schemes (with a tendency to 'badge' the product with their own brand identity). For those companies currently offering trust-based schemes (typically larger corporates), it is their 'culture' that will dictate whether or not these continue. Indeed, the same is likely to be true for those organisations where DB schemes are still in place.

- Pensions should be regarded as an employee benefit, which can be wrapped within a broader, flexible reward package for employees to choose and amend as necessary. This is easier for larger organisations, which already offer comprehensive reward packages, to identify with. However, there is also an opportunity for SME employers to demonstrate the real value of their pension scheme contributions alongside other financial and non-financial benefits offered (for example child care, life assurance, PMI, and so on) within their rewards package.

- More choice needs to be given to employees in relation to shorter-term saving options (ISAs, for example), although employers will not offer these directly. So, pensions will become part of a suite of financial options made available to employees.

- The most important contribution that employers can make is to provide an infrastructure of education, advice and information, with support from their external partners, whether these are IFAs or pension providers.

- One of the key messages to convey to individuals is the importance of saving for retirement from an early age: relying on the State pension alone is highly unlikely to provide them with a reasonable standard of living.

- Pensions remain tainted in the minds of individuals by negative associations, are viewed as too complex and beyond an individual's control. Individuals need guidance and support to understand, appreciate and value the importance of retirement planning, in terms and formats that are easy to understand; this is essential to optimise the chances of engagement/encourage personal responsibility.

- It is not feasible for employers and employees to bear solely the brunt of retirement planning. The Government needs to encourage and incentivise a system that is seen to be fair and non-coercive and must shoulder the responsibility for national awareness.

- The complexity of the pension problem is such that the introduction of auto-enrolment (whether into company pension schemes or personal savings accounts) is unlikely to deliver the Government's objective of total individual accountability and engagement. While it provides a theoretical solution – the devil in the detail of implementation, opportunities to abuse/opt out, relevance to all classes of employees at employer level and perceived affordability among those employees who are least able to commit to regular savings – suggests that this directive runs the risk of becoming another 'stakeholder' casualty, that is, there may be penetration in numbers but not value.

- Importantly, the employers in our research have not yet been brought on board; they are reliant on external advice and see auto-enrolment as a concern for the future. It would appear that only a minority are starting to plan the implementation of gradually increased contribution plans to avoid a big 'hit' for employees in three years' time.

- Given that employers feel anxious that a change of government might overturn or significantly amend the proposed legislation (and consequently make redundant any action they undertake), they would benefit from regular updates and support leading up to 2012.

- To tackle a national shortfall in adequate pension provision would require a complete overhaul of the UK State benefits system, to introduce parity of retirement entitlement and reward of individual savings effort. The ideal scenario therefore would appear to be a standardised pension guaranteed to deliver a reasonable standard of living, funded throughout each individual's working life (through automated National Insurance-style deductions), with individual ability to enhance retirement entitlement by investment choices made during one's working life

- Until the mantle of responsibility swings back towards state provision, employers will (in most cases, willingly) continue to deliver a 'duty of care' to employees as they always have done. The latest Thomsons Online Benefits Employee Rewards Watch Survey published in May 2009 identifies that 91% of employers say their strategic objective for having a pension scheme in place is to provide employees with adequate funding for retirement. However, comments made by two major corporate participants best sum up the widely held view:

'I'm a pensions person but I think if I was sitting in a business management perspective I would probably say I would rather have pensions off my agenda and looked after either by the State or through some compulsory system where everyone's the same, so that it's not part of a competitive rewards package and I don't have to worry about it; I'd know that everyone's looked after in retirement and I'm thinking about other ways of motivating and incentivising them.' [1]

'I think it is really sad that 20/30years ago occupational pension schemes were pretty much everywhere, they worked okay and most people in almost every industry retired on a reasonably healthy level of income. With all the reforms that have been brought in, basically since 1978, we've almost destroyed it. There are very few DB schemes left open and typical DC schemes have contributions at seriously inadequate contribution levels; I could weep for the way that we have broken down and spoilt something that actually worked very well before anybody tried to improve it.' [2]

[1] *Major corporate, closed DB, current trust-based DC)*
[2] *Major corporate, trust-based DC scheme)*

APPENDIX

APPENDIX 1: PUBLISHED DATA SOURCES REFERRED TO IN THIS REPORT

ALLINSON, G., BRAIDFORD, P. and HOUSTON, M. (2008) *Pensions and SMEs: encouraging savings among SME employees*. Research Report 103. London: Association of Chartered Certified Accountants.

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APPENDIX 2: RESEARCH METHODOLOGY

EMPLOYEE SURVEY

The CIPD/BlackRock employee survey was an online survey conducted by GMI among 840 UK private sector employees.

The demographic profile of the sample is shown below

Profile of employees	
	Total
No. of interviews	840
Gender:	
Male	62%
Female	38%
Age:	
18–29	24%
30–39	28%
40–49	24%
50–59	18%
60+	6%
Occupation:	
Senior management/professional	18%
Middle management	20%
Junior management/admin	36%
Skilled trades/customer service/other non-manual	15%
Manual/production	10%
Region:	
Scotland/NE/NW/Yorkshire & Humber	23%
West Midlands/Wales	14%
East Midlands/East	18%
London/SE/SW	42%
N Ireland	2%
Likely to be affected by changes in pension tax relief where higher rate taxpayers receive standard rate tax relief:	
Yes	10%
No	64%
Don't know	26%

Fieldwork took place between 24 April and 30 April 2009.

EMPLOYER SURVEY

This survey comprised 56 in-depth telephone interviews among a cross-section of employers, quoted by size and sector. Interviews were undertaken by executives of Gabriel Research & Management Ltd with senior HR decision-makers/influencers in each case. A profile of participating companies is appended, although for reasons of client confidentiality their responses are not attributed unless specific permission was granted to identify their comments.

An additional five 'cameo' interviews were undertaken in which views were sought from the HR, financial and employee perspectives to provide a full picture of company dynamics.

Fieldwork took place between 30 March and 30 July 2009.

APPENDIX 3: PROFILE OF PARTICIPATING EMPLOYERS

SMALL SMES
(TURNOVER LESS THAN £1 MILLION; FEWER THAN 25 EMPLOYEES)

1 Ashford Plumbing & Heating (Private ownership) Building services
2 Barcol Ltd Civil engineering
3 C Burn Systems Ltd IT
4 DP Group (Private ownership) Computer services
5 Jamaica Inn Ltd Hotel
6 John Page Trailers Ltd Service/retail
7 Kent & Sussex Accountancy Services (Partnership) Business services
8 Rye Hire Ltd Building services
9 Shades Tiles Ltd Retail
10 Whites Butchers Ltd Retail

LARGE SMES
(TURNOVER £1–5 MILLION; FEWER THAN 50 EMPLOYEES)

11 CDD Bentley Consulting (Private ownership) Construction
12 Fielden & Mawson LLP (Partnership) Architects
13 Graham Tiso Ltd Retail
14 Grantham Ceilings & Interiors Ltd Construction
15 Greenaway Accountants (Partnership) Accountants
16 Knowlden Titlow (Partnership) Financial advisers
17 Landmark Trust Charity
18 Midnight Communications Ltd Media
19 MIND Ltd Charity
20 MR UK Research Ltd Research
21 ROCC Computers Ltd IT
22 St Clements Plant Ltd Building services
23 The Princes Foundation (Ltd) Charity
24 Tyrells Potato Crisps Ltd Food manufacture
25 UKN Group Ltd Computing
26 Walter Meier Ltd Wholesale distribution

MID CORPORATES
(TURNOVER £5–10 MILLION; OVER 50 EMPLOYEES)

27 Baxters International Transport
28 BTL Group (Private ownership) IT
29 CAD Design Services Ltd Professional service
30 Contract Foods Ltd (now Huglie) Catering
31 Dickerson Group Ltd Waste management
32 EPS Evironmental Ltd Manufacturing
33 International Institute for Environment & Development Professional services

34 Knowledgepoint Ltd Publishing
35 Littlewood Fencing Ltd Wholesale/trade
36 Manchester Central Ltd Real estate
37 Mercers Co (Private ownership) Membership services
38 Paradise Park (Private ownership) Retail
39 Smith & Pinching Ltd Financial services
40 Zytek Engineering Ltd Engineering

LARGE CORPORATES
(TURNOVER MORE THAN £10 MILLION; 100–1,000+ EMPLOYEES)
41 Bechtel Corporation Engineering
42 British Telecom plc Telecoms
43 DHL International Ltd Logistics
44 E.ON UK plc Utilities
45 Klarius Ltd Automotive
46 Koso Kent Introl Ltd Machinery manufacture
47 McDonalds Ltd Food retail
48 Shell UK plc Energy
49 Smartstream Technologies Ltd Computing
50 The Royal Society of Chemistry Professional institute
51 Ultra Finishing Ltd Manufacture/distribution
52 Vamix UK Ltd Food manufacture
53 The Daily Telegraph Publishing
54 Adidas Retail
55 TUI Travel UK Travel services
56 Logica IT

CAMEOS

British Telecom plc (Telecoms)

Grant Instruments Ltd (Precision instruments)

Kellogg’s Ltd (Food manufacture/distribution)

Muller England Ltd (Engineering)

Pilbeam Building Contractors Ltd (Construction)

Towry Law Ltd (Financial services)

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Issued: November 2009 Reference: 5003 © Chartered Institute of Personnel and Development 2009