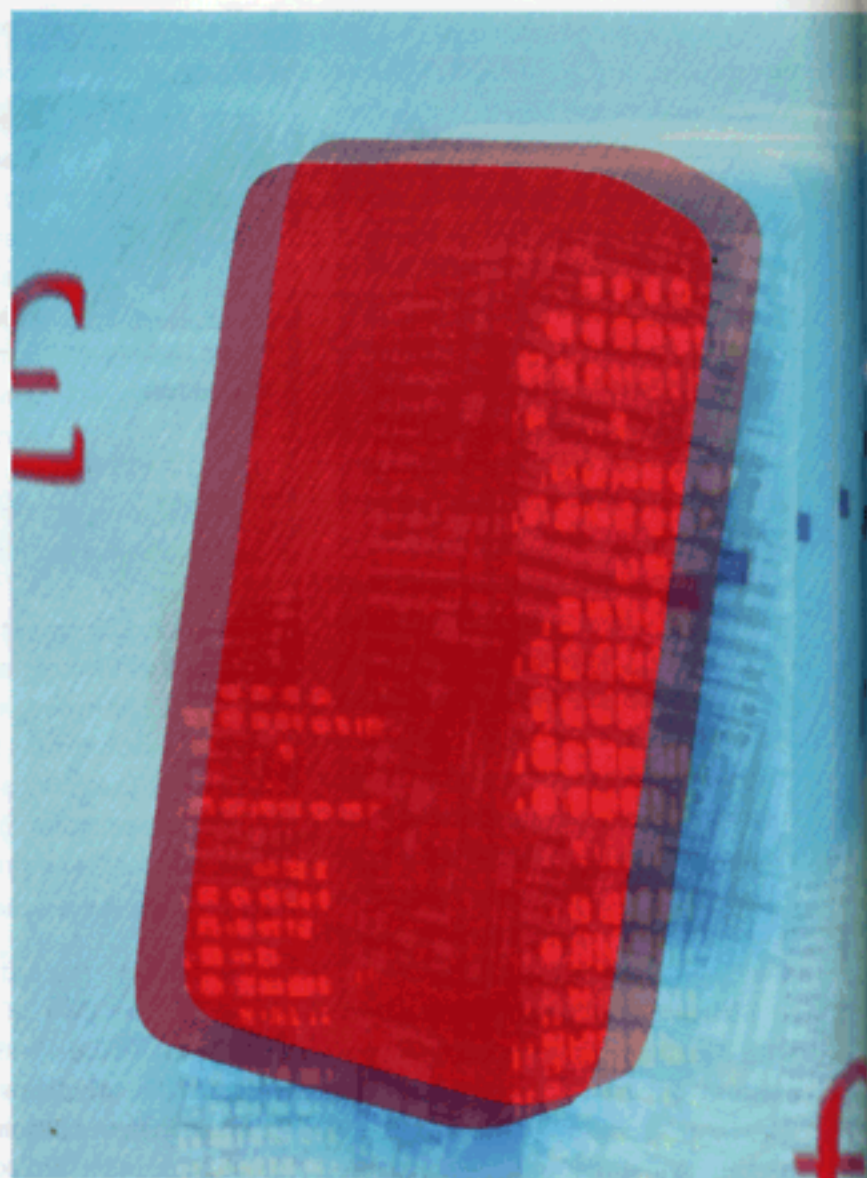


The advent of personal accounts will affect more than just pensions.

**Debbie Lovewell** checks out how auto-enrolment will impact on other forms of employee benefit



# PERSONAL ACCOUNTS: THE DOMINO EFFECT

**T**he introduction of almost any piece of employment legislation will inevitably have more far-reaching effects for employers than originally intended. The latest plans for pensions reform, which will see the introduction of automatic enrolment and compulsion when it comes into effect in 2012, are no different. As well as forcing employers to review their pensions provision, it could also mean that they revisit the overall benefits package they provide for staff.

With four years still to go until the planned reforms come into effect, industry speculation is rife about what impact the changes are likely to have on both employers' pension and wider benefits provision. In particular, there has been much debate centred on the number of companies that will reduce the pension contributions they make for employees to the statutory minimum or move staff over from an occupational pension scheme into personal

accounts, as a way of dealing with potentially increasing costs or administrative requirements.

The planned changes set out in last year's Pensions Act 2007 and the subsequent Pensions Bill introduced last December provide for the introduction of auto-enrolment for all employees over the age of 22 years who earn more than £5,000 a year. Employers will also have to contribute a minimum of 3 per cent of salary for all employees who do not choose to opt out of the scheme into which they have been enrolled. In addition, staff must contribute a minimum of 4 per cent of salary, while a further 1 per cent will be added by the government in the form of tax relief.

A system of personal accounts will also be established into which employees will be enrolled if their employer does not offer a qualifying pension scheme that meets the new minimum requirements, or if an organisation no longer wishes to continue to provide such a scheme.



According to Chris Bellers, pensions technical manager at Friends Provident, government research suggests that just 1 per cent of employers are likely to move employees over to personal accounts. This is also borne out in the results of the Employee Benefits/Axa SunLife Pensions Research 2007, which shows that just 2 per cent of respondents anticipated the new measures would force them to move all employees into personal accounts. Duncan Howorth, managing director of JLT Benefit Solutions, says: "I don't think that many employers will downgrade to personal accounts. We've got to a point in pensions where those that want to provide something for staff are doing that. The challenge for the industry is that we need to work with those employers who have set something up and review it in the context of personal accounts."

According to figures from the Department for Work and Pensions, however, just 200,000 of the approximately 1.2 million organisations that will be covered by the new legislation currently provide a pension with a minimum 3 per cent employer contribution. Steve Herbert, head of benefits strategy at Origen, believes a higher figure than 2 per cent of employers will move over to personal accounts than expected, although the true number will not become clear for quite some time.

Moving staff into personal accounts, however, may impact on more than just an organisation's pensions strategy. Thanks to auto-enrolment, many employers will inevitably find that they must begin making pension contributions for a much greater proportion of their workforce, which could steeply increase costs. This has prompted concerns that some organisations may also look to scale down the other employee benefits they provide in order to help raise the additional funds needed to meet their new contribution requirements.

Although this scenario is a very real possibility, many working in the market believe it is still too early to determine whether such concerns will come to fruition. Glenn Thomas, managing director of Jelf Corporate Consultancy, says: "At this moment in time, I don't see it impacting on other benefits. I think the type of employer that will move to personal accounts is unlikely to be benefits rich".

Herbert adds: "Just because pensions are going to be part of pay, it doesn't mean that employers should move away from doing everything advisers have been telling them to do for the last 10 years."

But for many employers with for example a 50 per cent or lower participation rate in their pension scheme, the advent of personal accounts and auto-enrolment is likely to lead to a near doubling of pension costs. If employers do find it is necessary to reduce other areas of their benefits package in line with their pension, one of the most obvious areas where cuts can be made is among some of the more costly perks they offer, such as private medical insurance (PMI) and group income protection, says Herbert.

Alternatively, employers may opt to remove or reduce the value of benefits that are traditionally linked to pensions. "Not only could a reasonable proportion of employers dumb down their contribution rate, but the benefits that sit around pensions could disappear. I think things like life assurance and group income protection could be at risk because, rightly or wrongly, they are closely associated with pension schemes," explains Howorth.

Rather than simply removing such benefits altogether, which could prove problematic if they form

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