

A change of plan

Young employees find it hard to see the value of saving into a pension scheme when they have more pressing demands on their finances. David Woods considers alternative forms of saving



If there is one aspect of personal finance that generates almost as much vitriol as MPs' expenses, it is, without doubt, pensions. Stories of hardworking employees being left penniless from collapsed schemes have sadly become all too common. In one embarrassing PR disaster, even the experts have been left high and dry. In April, pensions consultancy Aon was forced to announce it was slashing its own contributions by as much as 50% for some staff in order to cut costs – hardly a confidence booster for a beleaguered industry.

According to Deborah Cooper, principal at Mercer: "Pensions news has been bad for some time but employers have become complacent. In many cases, pensions have been badly handled and communicated, with HR taking a 'think about it later' attitude."

So are there any genuine alternatives to pensions? Can and should employers be looking at ways to invest their ever-diminishing budgets elsewhere?

To find out *HR* magazine commissioned research company TNS to survey staff attitudes to pensions.

The surprise results were that just 53% of the 1,104 employees surveyed said they saw a future in the pensions industry; 29% said they did not currently invest in a pension, nor do they

Pensions legislation

The Pensions Act, due to come into effect in 2012, proposes auto enrolment into some form of pension for all UK employees aged 22 or older as well as the launch of personal accounts for workers who do not have access to another occupational scheme.

Staff will contribute 4% of their salary into their personal account; the employer will contribute 3% and a further 1% will be achieved in the form of tax efficiencies from the Government.

But research from Jardine Lloyd Thomson Benefits Solutions shows only 27% of employers are optimistic about personal accounts and fewer than one in 10 think they will even come into effect as planned. And pensions consultancy Punter Southall reports 80% of employers have no intention of making changes to their pension provision to accommodate personal accounts and a mere 2% will offer a pure personal accounts arrangement.

plan to in the future and many say they want their employers to look at providing them with alternatives. When *HR* and TNS asked staff how they would prefer their employer to help them save for their future only half (58%) took the traditional stance, saying they don't need any other way to save, except in a pension. But 29% think the best option for them would be a share ownership scheme, 12% would like some assistance in paying off their mortgage and 10% said they would be able to save if their employer offered a way of reducing their student debt.

These alternative suggestions were made most notably by the young. Nearly a fifth (19%) of respondents aged 24 or under said they would like help to save for a mortgage and 28% would prefer help paying off a student loan rather than contribute to a pension.

Jamie Jenkins, head of employee wealth solutions at Standard Life, explains: "Often younger employees do not think as far ahead as retirement. A

vehicle like an individual savings account (ISA) is not a long-term savings plan but employers could offer it as a benefit as an alternative to or alongside a pension scheme.”

Employers currently paying 6% contributions into a group personal pension or stakeholder pension could take the option to continue to contribute 4% into this scheme and 2% into an occupational ISA – allowing employees a long-term savings option for retirement as well as help with savings to pay off debt or put a deposit down for a home in the short-to-medium term.

Save as you earn (SAYE) arrangements encourage staff to save with the option to buy shares in their organisation after a set period. But Jenkins explains: “The stock market is too risky for employees to use this strategy as their only means of saving. They need another savings plan as well.”

He adds: “We have done quite a lot of work around these sorts of options. It is worth remembering the tax benefits in pensions are the most attractive of any employee benefit, plus a salary-sacrifice option [where staff pay their pension contribution from gross salary] means staff and employers save NI and staff save tax as well.”

In spite of this, Tony Barnard, technical consultant at Gissings Consultancy Services, worries employers might bow to pressure from staff for higher salaries and do away with pensions altogether. “Some employers might just give up on pensions and offer staff a 10% increase in pay instead. The problem here is they will not save it and people must save for their retirement.”

HR’s research shows 11% of employees cannot make up their mind about whether they have confidence in pensions or not and 23% do not feel they get enough information about pensions from their employer. “The pensions industry has been battered and people have lost confidence,” says Mercer’s Cooper. “There is not a lot of trust in Government and providers but staff still have confidence in their employer to look after them when they retire.”

Companies, say experts, need to rescue this situation: “The real issue here is



What the research also shows

- Less than a third (31%) of employees surveyed contribute to an occupational pension scheme
- More than one in eight respondents (16%) admitted their employer does not offer them any form of pension

The HR director’s opinion



André Roux, HR director of DB Schenker

Logistics firm DB Schenker has a group personal pension scheme in place for its 900 staff. Contributions are made through a salary sacrifice arrangement, saving tax and national insurance. The firm matches

staff contributions up to the value of 6% of their salaries.

HR director André Roux says: “The default investment option for our staff is a lifestyle fund. So, as the stock market dropped, staff investments were moved out of stocks into much safer bonds, gilts and cash over a seven-year period. Our retiring staff shouldn’t suffer low pension pots as a result.”

He adds: “Not many people could argue with the benefits tax-efficient pensions and lifestyle funds can bring. But HR must make staff aware of the positive aspects of investing in pensions.”

DB Schenker’s benefits adviser Jelf Group visited all the company’s sites to communicate the benefits of the pension scheme. As a result, the percentage of staff contributing to a pension pot increased from 25% to 50%.

“We had to be proactive with pensions,” explains Roux. “HR cannot be silent and wash its hands of the affair.”

communication,” says Gemma McIntosh, head of stakeholder management at TNS. “The research proves the main challenge for employers is to demystify pensions. Staff have seen the negative press and don’t always see the value.”

Traditionally, employers provided final-salary, defined-benefit schemes for staff but, after 1988, when defined contribution (DC) schemes started to appear, most final-salary schemes closed to new members. This now puts a greater onus on staff to take charge of their retirement savings.

Barnard says: “Final-salary schemes will not be around in 10 or 15 years except in the public sector. DC has become a major force but employers must engage individuals with it. The average retirement pension pot is still only £30,000 so employers need to be more innovative in urging staff to save.”

Given the volatile nature of the economy – not to mention the pensions industry – experts struggle to predict what the future holds for this type of benefit. But Jenkins says: “In the future there will be a greater balance of products for employees and benefits schemes will be less pensions-centric.”

And McIntosh hopes employees will be given more choice concerning their financial benefits. She says: “Financial benefits like ISAs and share schemes are a bit niche and will only suit some people, whereas a pension scheme is a blanket benefit suitable for everyone. Maybe employers just need to give staff some choice and flexibility for them to really see the value of the perk.”

Either way, employers need to give more consideration to financial benefits – either pensions or some other form of savings. Pensions legislation in 2012 (see p24) means staff will have to be automatically enrolled into some form of pension scheme, but it is part of an employer’s duty of care to make sure they are given the best options.

Mercer’s Cooper concludes with the prediction: “We are not yet where we want to be with pensions – we need to learn to walk before we can trot. In 10 years’ time DC pensions will still be around but they will be nothing like what we see today.” ■