



Research summary  
Implications for employees

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# THE BUSINESS CASE FOR PRIVATE SECTOR WORKPLACE PENSIONS

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# INTRODUCTION

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, we have the Government's 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 interviews and a survey of 61 employers and 840 employees, the research has implications for employers (in particular, the HR profession), employees, the pensions industry and 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) up (or those with an annual turnover in excess of £1 million), 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.<sup>1</sup>***


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'<sup>2</sup>***

– 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

<sup>1</sup> Major corporate, 70,000 employees, closed DB scheme, current DC scheme with employer contributions

<sup>2</sup> Building services, 5–10 employees, under £1 million: no company pension scheme in place



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 synopsis summarises these key findings and draws out the implications for employers, employees, the pensions industry and Government.**

# KEY FINDINGS

## Size of business, culture and profitability dictate pension provision

- Size of business, business culture and business profitability will dictate the type and generosity of pension scheme offered by an employer. From an employer point of view, the rationale for offering pension schemes is viewed in an HR context – as a recruitment and retention device. Employers believe that workplace pension schemes can have a beneficial impact on business performance (albeit too indirectly to measure directly). This is best illustrated by a belief that not offering to contribute to a pension scheme would be detrimental to the recruitment of quality, first-choice employees and subsequent retention of a committed workforce.

***‘The business case for offering pensions is that hopefully it would encourage employees to see that you are looking after their welfare and not just providing them with their basic salary and any other emoluments.’***

(Professional: 100–150 employees)

***‘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.’***

(British Telecom)

## SMEs typically opt for simple, contract-based schemes, often without employer contribution, which offer little incentive to employees

- At the smaller SME level, it is unlikely that employers can afford to offer reward packages with any quantifiable financial value, and benefits are more likely to be low cost/qualitative (for example flexible working hours, additional holidays, free car parking, and so on).

***‘In an ideal world, having a pension scheme would be great but we’ve been making a loss for a while so it’s just not practical. However, we counter that by having very flexible working conditions.’***

(IT/computers: 10–20 employees)

- 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 and may well offer no employer contribution. There is therefore no incentive for the employee to join such schemes and take-up is, not surprisingly, extremely low. Furthermore, those in decision-making capacities within smaller SMEs are often ruled by their own personal perspectives, having seen cyclical changes of government policy and have experienced shortfalls in pensions/endowments themselves; they therefore empathise with their employees and do not promote the benefits of joining a company scheme.

*'It's never been a focus of discussion at an interview. It's one of those things that's offered – like free parking.'*

(Professional: Under 25 employees)

*'Certainly for myself with my own pension plan I have to wonder, why do I bother?'*

(Professional: 5–10 employees)

### Larger corporates typically encourage employees in 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.

*'We see it as a very valuable part of our overall reward strategy and we invest in it accordingly.'*

(Major corporate: 10,000+ employees)

*'We run a total reward concept... younger people may put more emphasis on salary and their flex package, but for older people, pension has got to be the most important.'*

(Financial services: 100–500 employees)

### Improving employee engagement represents a key challenge

- 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:

– affordability (one in four could not afford it when they joined the company and have not thought about it since)

– a perception that it is not worth joining the scheme of an employer they may not stay with for long (one in five mention this as a key reason for not joining the scheme); not surprisingly, this is the most common reason among younger, casual, lower-skilled workers

– a scepticism about the long-term security of their employer

– an underlying assumption that ‘at the end of the day’, the state will provide: one in seven expect to rely on a state pension. And as one employer commented:

***‘I think most people are under the impression, ‘Well, I’m not going to starve am I?’ and somebody, somewhere will look after me.’***

(Catering: 100–150 employees)

- 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.

### **Pensions are perceived as too complex and beyond an individual’s control**

- 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).

***My view on pensions is quite cynical. I m pretty much of the belief that the entire pensions system will come crashing down across the next couple of years and anything I start putting away now will be worth a loaf of bread in its entirety.***

(Employee: 27 years old, not in a pension scheme)

### **One in three people and 60% of employees over 50 in this survey are worried about their retirement provision**

- But employees **do** worry about their retirement: our survey showed that only one in three employees have any sense of confidence about their retirement provision, and 60% of employees over the age of 50 said they were worried about the amount of money they would have to retire on.

# IMPLICATIONS OF THE FINDINGS

Our research shows that encouraging employee engagement demands a four-way relationship between the individual, the employer, external advisers/providers and national policy.

- **Individual responsibility**

- Our research 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.

- **The employer**

- 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 –

whether they are independent financial advisers (IFAs) and/or pension providers – to empower employees with the means to take full responsibility for their own choices. (Only one in four employees in our research had any idea of the amount they need to save or the total pension pot required to fund an adequate retirement.)

- Employers could also act as facilitators to offer more choice to employees in relation to shorter-term saving options (ISAs, for example). So, pensions could become part of a suite of financial options – including non-pension products – targeted towards employee life stage and priorities.
- Communications in the workplace (building awareness, informing and encouraging investment) need to be high profile and easily accessible to employees.

- **External advisers/providers**

- Focusing on the most challenging – and the largest – employee segment, comprising blue-collar, retail-based, young, casual workers (who are least likely to be members of pension schemes), the following are required:
  - simple, straightforward communications that 'sell in' the rationale for pension planning (for example tax benefits, value of employer contributions)

- simple, accessible, portable products: employees have more faith in straightforward savings vehicles than what they perceive to be 'intangible' locked-away pension schemes.
  - One in ten employees in our research still thinks 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.
  - With 2012 fast approaching, policy-makers must not underestimate the amount of education and operational support required to accompany the introduction of personal savings accounts.
- **For employees who are already pension scheme members:**
- regular updates/financial health checks that help individuals to stay 'on track' towards adequate retirement provision are of key importance.
- **National policy**
    - There is a clear task for government to engage and inform consumers about the need to plan for their own 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).

# CONCLUSIONS

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 and encourage personal responsibility.
- It is not feasible for employers and employees (or pension providers) to bear solely the brunt of retirement planning. Public policy initiatives need to encourage and incentivise a system that is seen to be fair and non-coercive, and the Government must shoulder the responsibility for national awareness.
- To tackle the bigger issue (a national shortfall in adequate pension provision) would require a complete overhaul of the UK state benefits system, to introduce more parity of retirement entitlement and reward of individual savings effort. In the absence of this, employers, pension advisers and providers need to work together to provide employees with simple, accessible, portable products that meet their evolving life-stage needs.
- This research shows that employers (and their employees) would welcome access to (third party) alternative financial or savings products (for example ISAs), particularly more low-cost, low-involvement options that would help to maximise the value that can be generated from employer and employee pension contributions, for example:
  - salary sacrifice schemes
  - 'Save More Tomorrow' schemes
  - graduated contributions.

# APPENDIX: RESEARCH METHODOLOGY

## Employee survey

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

The demographic profile of the sample is shown in the table on the right.

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

Fieldwork took place 24–30 April 2009

## **Employer survey**

This survey comprised 55 telephone depth interviews among a cross-section of employers, quotaed 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 six '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.*

# PROFILE OF PARTICIPATING EMPLOYERS

## **SMALL SMEs**

### **TURNOVER UNDER £1 MILLION; UNDER 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; UNDER 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*

- 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 OVER £10 MILLION; 100–1,000+ EMPLOYEES**

- 41 Bechtel Corporation *Engineering*
- 42 DHL International Ltd *Logistics*
- 43 E.ON UK plc *Utilities*
- 44 Klarius Ltd *Automotive*
- 45 Koso Kent Introl Ltd *Machinery manufacture*
- 46 McDonalds Ltd *Food retail*
- 47 Shell UK plc *Energy*
- 48 Smartstream Technologies Ltd *Computing*
- 49 The Royal Society of Chemistry *Professional institute*
- 50 Ultra Finishing Ltd *Manufacture/distribution*
- 51 Vamix UK Ltd *Food manufacture*
- 52 The Daily Telegraph *Publishing*
- 53 Adidas *Retail*
- 54 TUI Travel UK *Travel services*
- 55 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)

- 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*
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- 44 Klarius Ltd *Automotive*
- 45 Koso Kent Introl Ltd *Machinery manufacture*
- 46 McDonalds Ltd *Food retail*
- 47 Shell UK plc *Energy*
- 48 Smartstream Technologies Ltd *Computing*
- 49 The Royal Society of Chemistry *Professional institute*
- 50 Ultra Finishing Ltd *Manufacture/distribution*
- 51 Vamix UK Ltd *Food manufacture*
- 52 The Daily Telegraph *Publishing*
- 53 Adidas *Retail*
- 54 TUI Travel UK *Travel services*
- 55 Logica *IT*

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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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