



Research summary  
Implications for employers

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**BUSINESS CASE  
FOR PENSIONS**

# 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 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) 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, only two in three regard pensions as the main way to save for retirement, so there is a clear disparity between the employer and employee view on pensions as a saving vehicle.

<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



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.

# KEY FINDINGS FOR EMPLOYERS

## Four 'types' of employer vis-à-vis pension provision

Based on our research, we find that employers can be segmented into four types depending on their philosophy/business rationale in relation to retirement provision and reward structures for employees: these models correlate with size of business to a large extent but also reflect underlying business ethics and affordability:

**1 Access only:** typically small employers, heavily manual or seasonal worker based. Basic stakeholder schemes are in place purely for compliance (that is, employers with five or more employees), with no employer/employee engagement. It is likely that a high proportion of basic stakeholder schemes in place are merely 'shells', with no employer contributions and no incentive for the employee to join. 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. This segment represents one of the biggest challenges to the introduction of workplace pensions and, looking ahead, will continue to do so.

**2 Access and advice:** where employers embrace the responsibility of providing employees with access to financial advice, which the employer cannot provide. This is a typical model for larger SMEs offering stakeholder schemes. In this scenario, links are usually forged with local independent financial adviser (IFA) firms to deliver advice, although there is evidence to show that IFAs' level of proactivity understandably correlates with the business potential presented by the company. (Even among firms with 50–100 employees, the level of recruitment and subsequent take-up of a stakeholder scheme is small in absolute numbers.)

*'I think people know they need a pension but they almost need steering in the right direction: you almost have to be explicit and say "look, sign there".'* (Manufacturing/engineering: 100 employees)

*'People are able to set up meetings with our pensions consultant and talk to them...but then the rest is up to them really.'* (Professional: 10–25 employees)

*'Certainly for myself with my own pension plan I have to wonder, why do I bother?'* (Professional: 5–10 employees)

### 3 Advice/education and joint

**responsibility:** this is a typical model for most corporates with DB as well as DC schemes. Employers are more engaged with employee retirement planning, either with IFAs or directly with pension providers. Pensions are more integrated as part of an overall benefits package. Specific job functions (rewards and compensation/benefits) exist to focus on the identification and delivery of benefit schemes. Most corporates, which we define as having an annual turnover in excess of £5 million, are likely to identify themselves in this segment.

*'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.'*

(Professional: 25–50 employees)

*'I think employers should encourage employees to consider some form of saving, whether it's a pension or not.'* (Retail: 260 employees)

### 4 Joint responsibility and life

**planning:** at this truly philanthropic end of the spectrum, companies have a 'cradle to grave' ethic and are more open to alternative scenarios that suit the needs of employees as they go through life. Pensions are viewed as one element of a flexible benefits package and an infrastructure of support is in place within the company. In our research, companies in this segment were large corporates in terms of turnover, although not necessarily large in terms of the number of employees.

*'We see their pension scheme as a valuable part of our reward strategy and we invest in it accordingly.'* (Major corporate: 10,000+ 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 creating more wealth creation.'* (Kellogg's)

## **DB and DC schemes present very different issues**

Not surprisingly, the types of issue that employers have to address presented by defined benefit (DB) schemes and defined contribution (DC) schemes are very different.

### **The DB scheme environment**

Over the past five years, the most significant catalyst to review a pension has been the well-documented damage limitation effort (for larger employers in particular) moving from defined benefit to defined contribution pension structures. The most time-consuming, potentially financially damaging and generally problematic issues relate to defined benefit schemes. The deficits being managed are, in some cases, likely to threaten the future existence of businesses. The perceived 'over-regulation', accounting treatment, compliance and funding costs are painful burdens still carried by businesses, even those that may have closed their schemes several years ago. Ironically, the desire to support employees' retirement planning has typically led companies to resist closing their schemes until it was simply no longer possible to sustain them, thereby exacerbating the financial problems they are still dealing with and will need to manage for many years to come.

***'We're carrying £150,000 of costs per year because of something that was decided back in the '60s that we didn't get rid of early enough. So it's out of all proportion really.'*** (Grant Instruments)

***'The change in accounting standards and nature of regulation in the UK has made it much more difficult for companies to preserve and run DB schemes.'*** (British Telecom)

***'We're sick to death of having to write a blank cheque to a pension scheme and not be able to predict how much this would cost.'*** (Catering: 50–100 employees)

### The DC scheme environment

There has been no equivalent catalyst for employers to review their defined contribution schemes. Pension plans managed by a board of trustees, or trust-based schemes (generally offered by larger organisations), deliver organisational branding and management with the advantage of financial control provided by defined contributions and as such have more active 'oversight' by trustees, usually involving HR or financial personnel. Contract-based schemes on the other hand – whether group personal pensions (GPP) or stakeholder – are very low maintenance propositions for employers' HR and finance functions.

***'If someone wants to join, I join them and put them in the scheme they choose. All we are, as the company, is the administrative centre to manage the deductions from the wages and payments into the scheme.'*** (Manufacturing/engineering: 100 employees)

### No pressing *financial* reason to review whether DC pensions support business needs

From a financial point of view, the cost of funding a pension scheme may be regarded as another business cost rather than an investment in human capital, so the simplicity of budgeting/financial management that contract-based defined contribution schemes offer (certainly in the form of stakeholder schemes), means that there is no pressing financial reason to review whether the pension is supporting the needs of the business or its affordability. In any case, the level of take-up and contribution levels in many small and medium-sized enterprises (SMEs) is low enough for the actual costs to the business to be very manageable. Reviews may well be instigated on the advice of third party advisers (based on fund performance or service) or as a result of organisational change in order to streamline pension scheme options.

Businesses in our research did not relate to the provision of pension schemes in terms of a quantifiable, financially accountable return on investment.

## **Pension provision is seen as part of a broader recruitment, reward and remuneration remit**

The business case for pensions is more identifiable within an HR context and relates to recruitment and retention: it is therefore more qualitative and not directly measurable.

***‘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)

### **SMEs**

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/non-financial (for example flexible working hours, additional holidays, free car parking, on-the-job learning, 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 and the low turnover of staff in absolute terms means that 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.

***‘It’s never been a focus of discussion at an interview. It’s one of those things that’s offered – like free parking.’*** (Professional: fewer than 25 employees)

Government plans for automatically enrolling employees either into an existing workplace scheme or into a proposed personal savings account to which both the individual and the employer must contribute (unless the employee opts out) from 2012 onwards 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 with significant workforce costs.)

## 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) these still face the significant challenge of mass workforce engagement looking ahead to 2012. (The key reason for not contributing to a company pension scheme is 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.)

With only two years to go before the planned legislation comes into effect, companies 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.)

Larger companies can, and do, measure the relative appeal and cost-effectiveness of the various component elements of the benefits package, for instance 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 financial and non-financial 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. The findings show that the relative importance of a pension as a recruitment and retention 'device' 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, which are flexible enough to evolve with employees' changing life-stages, and therefore it would be wrong to view them in isolation from these.

***'I think 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.'*** (Major corporate: 1,000+ employees)

## **Workplace pensions can have a beneficial impact on business performance**

Even though they may not be directly measurable, there is an understanding 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, especially among larger employers, 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 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 disbenefit.’*** (British Telecom)

More strategically, the existence of a company pension scheme supports the long-term manpower planning concerns for companies: by effectively facilitating exit strategies for long-serving employees (with adequate retirement packages), the organisation is better able to manage future resourcing issues.

Currently, over half (53%) of employees over the age of 60 expect to have to extend their working lives longer than anticipated.

## **The future will be a simpler, DC (contract-based) product**

Most employers in our research agreed 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.

***‘We need to take a more holistic view of needs in which a 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.’*** (Major corporate: 1,000+ employees)

# IMPLICATIONS OF THE FINDINGS

## FOR SMEs

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- There is a need for HR functions 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 saving, so that employees understand and appreciate what the organisation is doing and the value of the pension scheme as an employee benefit.
- There is then an opportunity for SME employers to demonstrate the real value of their pension scheme contributions alongside other benefits offered (for example child care, life assurance, private medical insurance, and so on) within their rewards package.
- However, all employers need clearer (and consistent) guidelines from regulators about what HR can and cannot do with regard to financial education, awareness and communication.
- As the financial implications of auto-enrolment become more 'centre-stage' over the next two years, the need for simple solutions and external advice will become more pressing for SME employers, especially those who have no formal HR expertise in-house. 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.
- It would be helpful for employers to be more aware of, and embrace, low-cost, low-involvement innovation to maximise the value that can be generated from employer/employee pension contributions, for example:
  - salary sacrifice schemes where, as mentioned earlier in the report, an employee agrees to give up a proportion of cash remuneration in return for the employer's contributions to a pension scheme
  - Save More Tomorrow schemes (whereby the employee commits in advance to allocate part of their future salary increases towards retirement saving).

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.

## FOR CORPORATES

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- 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.
- The opportunity for corporates to provide an infrastructure of education (and in some cases, advice) with support from their external partners
  - would deliver a further low-cost benefit within the reward package as well as reinforcing their commitment as paternal employers. Such education/information has to fight through a barrier of suspicion generated by the perceived complexities and jargon associated with pensions.
- 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.

# CONCLUSION

- Unless 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 Online Benefits 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.
- 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.
- 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.
- 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.

# APPENDIX 1: KEY STATISTICS

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:

- Employees are most likely to engage with their pensions between the ages of 40–49.
- Only one in four employees have any idea of the amount they need to save to live comfortably after retirement.
- Sixty per cent of over-55s are worried about the amount of money they will have to rely on when they retire.

Reasons for not joining an employer pension scheme relate to:

- **Longevity of employment:** they may not plan to stay with their employer long enough for it to be worthwhile. Nearly one in five overall cite this as the main reason. Among the younger, casual, lower-skilled workers (who are least likely to stay in one job for very long), this features as the most common reason for not joining a scheme.

- **Affordability:** One in four couldn't afford it when they joined the company and almost one in three still perceive they can't afford it at a later date.
- **An underlying assumption that 'at the end of the day' the State will provide:** One in seven of those without a company pension scheme anticipate that they will be looked after by the State on retirement.
- **Scepticism about the long-term security of their employer** (noted in the qualitative research).
- **Scepticism about pensions as a means of saving:** One in six would rather save in other ways.

A significant proportion of employees would prefer to take control over their saving for retirement rather than join a company pension scheme:

- Given the opportunity to choose how their employer might support their saving for retirement, one in five would prefer the additional money in their pay packet and choose for themselves how to save.
- More than half (59%) of over-55s expressed an interest in using the newly enhanced ISA savings limit to save towards retirement.

# APPENDIX 2: 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, 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 six 'cameo' interviews were undertaken, in which views were sought from the HR, financial director 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 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*
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 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)



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