the survey

SECTION 1

Our survey, which was carried out in August 2006, received 356 replies from *Employee Benefits* readers and visitors to www.employeebenefits.co.uk

WHO ARE THE RESPONDENTS?

How many employees are in their organisations?

Less than 5	3%
5-100	19%
101-500	28%
501-1,000	13%
1,001-5,000	19%
5,001-10,000	8%
More than 10,000	10%

Sample: all respondents

In which business sector do they operate?

Financial	27%
Technology/media/telecommunications	13%
Service (excluding public sector)	11%
Manufacturing	8%
Public sector	6%
Voluntary/charity	4%
Retail/FMCGs	4%
Transportation and distribution	3%
Pharmaceuticals/healthcare	3%
Building and construction	1%
Chemicals	1%
Utilities	1%
Other	16%

Sample: all respondents

What are respondents' job roles?

Benefits/reward manager	28%
HR/personnel director	22%
HR/personnel manager	21%
Pensions manager	13%
Finance director	10%
Finance manager	4%
Other	1%

Sample: those responsible for pensions (205 respondents)

KEY FINDINGS

18% of employers have changed the retirement age of their pension scheme ahead of age discrimination laws coming into effect.

74% of bosses say the government's proposed pension reforms will not solve the pensions savings crisis.

62% say the proposed introduction of auto-enrolment and compulsory employer contributions of 3% in 2012 will have no effect on schemes.

54% of organisations offered high earners nothing if executives reduced or opted out of pensions provision following new simplification rules.

31% of bosses say implementing pensions simplification legislation didn't cost their organisation anything.

59% of respondents believe staff have not lost faith in employer-provided schemes.

74% of employers encourage scheme membership, while **70%** claim to make adequate employer contributions.

55% of respondents admit take-up of their DC pension scheme is too low.

39% of employers are reviewing contribution levels, while **5%** plan to increase staff contributions.

55% of those that offer a defined contribution scheme provide a group personal pension (GPP), making it the most popular type of DC plan.

Attitudes

Employers still take the view that occupational pensions are a valuable recruitment tool, despite an increasing number believing that schemes are subject to too much regulation and are too costly to run, says **Vicki Taylor**

What are employers' attitudes towards occupational pension schemes?

It's a valuable recruitment tool	**77%**
It's a valuable retention tool	**74%**
As an organisation, we feel responsible for employees' long-term financial wellbeing	**71%**
There is too much regulation involved in running a scheme	**65%**
We offer a pension scheme because our competitors do	**55%**
Schemes have become too expensive to run	**52%**
Pensions are the benefit that most staff want above all other benefits	**36%**
Staff have lost trust in employer-provided pensions	**32%**
Most staff would prefer to forgo the pension scheme and have more basic pay	**18%**
We would prefer to forgo the pension and pay more cash	**12%**

Sample: those who are responsible for pensions (205 respondents)

Pensions continue to be seen as a key benefit by employers, with 77% stating that a pension scheme is a valuable recruitment tool. However, despite this, only 36% of employers believe a pension is the benefit which staff want above all others.

Over the eight years that *Employee Benefits* has carried out its pensions research, employers' attitudes towards pensions have stayed remarkably similar, with the same reasons for providing a pension always taking the top three positions. In 2005, for example, the view that an occupational pension is a valuable recruitment tool also topped the table (78%), while feeling responsible for employees' financial wellbeing came in in second place (75%).

Despite the ongoing changes to pensions due to simplification legislation and a large number of organisations pulling the plug on their defined benefit schemes, 59% of employers said that their staff had lost trust in employer-provided pension schemes. However, perhaps as a result of recent legislative changes, more employers believe there is too much regulation involved with providing a scheme. The percentage has risen from 24% in 2002, and 47% in 2004, to 65% currently.

What do employers do to ensure staff have an adequate pension in retirement?

Actively encourage scheme membership	**74%**
Ensure employer contributions are adequate	**70%**
Actively encourage staff to make adequate contributions	**58%**
Proactively educate staff on pensions	**53%**

Sample: those who are responsible for pensions (205 respondents)

The research suggests many organisations take a paternalistic attitude when it comes to pensions provision.

Nearly three-quarters of employers said they actively encourage pension scheme membership (74%), while a similar number (70%) said that they ensure employer contributions to the scheme are adequate.

When it comes to actively encouraging staff to make adequate contributions, 58% of employers said that they did, while a fifth said they felt they should do so (21%) but currently didn't. Another fifth (20%) said it was not their responsibility.

Just over half of employers (53%) said they take a proactive approach to educating staff about pensions, while around a third (34%) felt they should but currently didn't.

With only just 13% saying that it is not their responsibility to proactively educate staff on pensions, it looks as though employers are taking pensions communication seriously.

Will employers' contributions provide an adequate level of funding for their employees in retirement?

No	**53%**
Yes	**46%**

Sample: those who are responsible for pensions (205 respondents)

If no, what action do they plan to take?

We are reviewing contribution levels	**39%**
None	**35%**
Don't know	**18%**
We plan to increase staff contributions	**5%**
We plan to increase employer contributions	**3%**

Sample: those whose pension schemes do not provide adequate funding for retirement (109 respondents)

This year, much pensions news has revolved around the fact that employers are struggling to manage the costs involved in providing pension schemes, particularly where defined benefit plans are concerned. So it is no surprise that of the respondents who believe their contribution levels are inadequate, 39% are reviewing them, while 5% are planning to increase staff contributions. Only 3% plan to increase their organisation's own contribution levels in order to boost staff pensions.

Have employers made use of last year's rule change that allows them to promote stakeholder and group personal pensions in the workplace?

No, and we have no plans to	**46%**
Yes	**28%**
No, but we do have plans to use it	**13%**
Don't know, we have never heard of it	**9%**
Don't know, but we have heard of it	**3%**

Sample: those who are responsible for pensions (205 respondents)

In July 2005, the government amended the Financial Services and Markets Act 2000 (Financial Promotion) (Amendment) Order 2001, to make it easier for employers to promote these types of pension schemes to employees.

Only 28% of employers say they have made use of the rule change. And just under half (46%), say they have no plans to make use of the change under the legislation, while 9% say they have never heard of it.

More encouragingly, a further 13% say they have heard of the rule change and plan to use it in the future to help promote their schemes.

Have employers used the tax break on pensions advice (up to a £150 limit) introduced in 2004?

No, and we have no plans to use it	**47%**
Don't know, we have never heard of it	**24%**
Yes	**13%**
No, but we do have plans to use it	**11%**
Don't know, but have heard of it	**5%**

Sample: those who are responsible for pensions (205 respondents)

Financial advice is a growing trend in the workplace. As it cannot be given by anyone who is not registered with the Financial Services Authority, the £150 tax break per employee per year for pensions advice was designed to enable employers to buy in the resources they need to provide this.

While 13% of the respondents have used the tax break, the vast majority (47%) say they have no plans to do so. A similar number (46%) said the same last year. One reason could be that £150 actually buys very little financial advice.

There has been an increase in the number of employers who say they have not heard of the provision, which represents a 33% rise on 2005's figures. This perhaps indicates that the tax break has not been publicised well enough.

What is the official retirement age at respondents' organisations?

Age 65	**69%**
Age 60	**14%**
We have flexible retirement	**13%**
We have scrapped the retirement age	**4%**

Are employers changing their retirement age policy?

No	**67%**
Yes, we plan to introduce flexible retirement	**17%**
Yes, we plan to raise our retirement age	**12%**
Yes, we plan to scrap the retirement age	**3%**

Sample: those who are responsible for pensions (205 respondents)

Retirement ages and pensions are a hot topic. From 1 October, when age discrimination legislation comes into effect, a national default retirement age of 65 years will be introduced.

The majority of respondents indicate that their retirement age meets the new requirements, with just 14% saying they currently retire staff at age 60. However, when asked about the future, 29% said they plan to introduce flexible retirement or increase their retirement age. A further 17% said they already have flexible retirement or have scrapped the retirement age, perhaps planning ahead for the future. If government proposals get the go ahead the state pension age will increase to 68 years by 2044.

Types of scheme

SECTION 3

Do employers educate employees about the different investment options?

Yes, we provide access to an individual financial adviser	**34%**
Yes, we provide printed/online materials	**33%**
Yes, we run seminars/education sessions in-house	**26%**
No	**16%**
No, but we are considering it	**15%**

Sample: those who offer a defined contribution plan (141 respondents)

What investment options are offered under respondents' defined contribution plans?

Managed fund	**77%**
Lifestyle plan	**67%**
Index fund	**57%**
Individual sector funds	**50%**
With profits	**37%**
Ethical investments	**28%**
Deposit based/building society	**23%**
Direct investments	**14%**
Don't know	**6%**

Sample: those who offer a defined contribution plan. (141 respondents)

The majority of employers see the need to provide some sort of financial education around the investment choices they offer. The most popular means of doing so is by providing access to an independent financial adviser, as offered by 34% of respondents. This may be because employers feel this is the safest option from a legal perspective. Unless organisations are regulated by the Financial Services Authority they cannot provide advice relating to employees' individual circumstances. Even if they are regulated, employers may feel more comfortable employing an outside company to do the work.

When it comes to the type of funds on offer, managed funds are the most popular investment type, offered by 77% of respondents. The least popular fund option is direct investments, with only 14% of respondents offering this as a fund choice.

For most members, what percentage of salary is the employer's contribution to their money purchase plan?

1%-3%	7%
4%-6%	28%
7%-9%	13%
10%-15%	8%
16%-20%	2%
More than 20%	1%
0% only employees contribute	1%

Sample: those who offer a defined contribution plan (141 respondents)

The most popular contribution level for employers into a money purchase plan is between 4% and 6%. This is also the most popular level for employers offering group personal pensions (GPPs), with 35% of respondents having said their organisation contributed between 4% and 6%. For stakeholder schemes, 20% of employers said they offered the same level. The second most popular contribution level for both money purchase plans (13%) and GPPs (13%) was between 7% and 9%. With stakeholder plans, the second most popular option was for employers to make no contributions at all, stated by 18%.

Of those which offer pensions through salary sacrifice, how are the employer National Insurance savings used?

To make additional pension contributions	**38%**
For general company use	**18%**
To fund a flexible benefits scheme	**16%**
Nothing	**10%**
To fund other benefits for staff	**8%**
To fund other HR initiatives	**5%**
To fund a voluntary benefits scheme	**2%**
None of the above	**15%**

Sample: those who offer salary sacrifice arrangements on pensions (61 respondents)

According to this year's survey, 30% of employers allow staff to make pension contributions through salary sacrifice arrangements. There have been some concerns this year that HM Revenue & Customs would stop employers introducing and using such schemes. So far, these fears have proved unfounded, with tax test cases showing that properly setting up such schemes is perfectly legitimate. The most popular way for employers to use their National Insurance (NI) savings is to reinvest them back into the pension scheme, while 16% use the money to fund a flexible benefits plan.

Funding a voluntary benefits scheme is one of the least popular options, with only 2% investing NI savings in such a scheme.

Do employers believe the level of take-up for their DC pensions is as high as it should be?

No	55%
Yes	45%

Sample: those who offer a defined contribution plan (141 respondents)

Although 41% of employers have between 26% and 75% of their employee population enrolled in their DC scheme, more than half (55%) of respondents say that the take-up of the scheme is not as high as it should be. This perhaps indicates that employers recognise the need to publicise schemes more widely to employees, in order to drive up take-up rates.

Legislation

SECTION 4

This year's results show a high level of pre-emptive pensions action ahead of the latest age discrimination legislation, while employers prove a tad sceptical of government proposals concerning pensions, says **Jamin Robertson**

What changes have employers had to make to the pension scheme ahead of age discrimination legislation?

None	**73%**
Changed the retirement age	**18%**
Removed scheme entry criteria	**5%**
Changed pension contribution levels	**4%**
Opened scheme to younger employees	**3%**

Sample: those responsible for pensions (205 respondents)

What effect will auto-enrolment to pensions and compulsory employer contributions of 3% have on employers' schemes?

No effect	**62%**
Don't know	**28%**
Employees will be moved over to the proposed system of personal accounts	**3%**
Reduce employer contributions to the minimum	**2%**
Switch from an occupational scheme to a lower risk stakeholder or group personal pension	**2%**

Sample: those responsible for pensions (205 respondents)

The new age discrimination legislation outlaws the use of unjustified retirement ages below the age of 65 years.

Nearly one-in-five respondents have chosen to alter the retirement age of their pension schemes prior to the legislation coming into effect this month.

The Employment Equality (Age) regulations also introduce the right for employees to ask to continue working beyond the retirement age, a request which employers must consider.

Just a small number of respondents have so far decided to alter contribution levels and eligible entry ages to their occuaptional schemes. This may reflect the fact there are many exemptions for age-based rules for such plans set out in the regulations.

However, nearly three-quarters of employers have not yet made changes to their scheme for whatever reason.

In the view of the Department for Work and Pensions, the white paper on pensions reform is a historic solution to the pensions challenge, but employers appear to regard the issue as something of a damp squib.

The Pensions Commission has estimated that minimum contribution levels outlined in the proposed pension reforms will deliver replacement salary rates of 45% for median earners who begin saving at age 30.

But nearly three-quarters of respondents (74%) do not believe this is the answer to the savings crisis, although 24% admit they are uncertain of the outcome.

Anecdotally, we have been told by many in the pensions industry that the bar for compulsory contributions has been set low to be politically palatable. Industry experts have stressed the need for employers to encourage staff to contribute more than minimum levels.

Just over 60% of employers, meanwhile believe that auto-enrolment will leave their occupational pension unchanged. This is despite the fact that other industry research has found that auto-enrolment typically boosts employee membership levels from an average of 50% to 90%, which can drive up costs.

Do employers believe the government's White Paper on pensions reform published in May 2006 will solve the pensions crisis?

No	**74%**
Don't know	**24%**
Yes	**2%**

Sample: those responsible for pensions (205 respondents)

The assertion by employers that auto-enrolment will not lead to changes in pension schemes contrasts with the views of pensions experts who expect many employers to reduce individual contribution levels to fund increased rates of scheme membership. They doubt employers will simply absorb the extra costs.

But 28% of respondents are unable to say how these proposals will affect their pensions provision if they are introduced in 2012. Perhaps the issue has yet to appear on their radar. ➤

Legislation

SECTION 4

From which department(s) were employers involved in implementing pensions simplification legislation?

Human resources	**63%**
Pension scheme trustees	**32%**
Finance	**32%**
Pensions	**30%**
Benefits	**14%**
None	**11%**
Other	**8%**

Sample: those responsible for pensions (205 respondents)

How did organisations prepare executives for the new lifetime allowance limit?

Told them about the issue, and left them to seek advice	**35%**
Provided them with access to independent financial advice	**33%**
Did nothing	**31%**

Sample: those responsible for pensions (205 respondents)

Employers were rather evenly divided in their approach to preparing executives for the lifetime allowance limit introduced under pensions simplification legislation in April.

Those staff with pension funds in excess of £1.5m are liable for a tax charge of up to 55% if they have continued to contribute to pensions post-April 6 and have not taken measures to protect their fund ahead of this date.

Yet, 31% of employers chose not to inform high earners of the issue, a potentially perilous option given the influence typically wielded by this group of staff. Some 68% of respondents chose to at least point the organisation's top earners in the right direction.

How much did implementing the legislation cost respondents' organisations?

Less than £5,000	**15%**
£5,000-10,000	**7%**
£10,001-20,000	**7%**
£20,001-50,00	**11%**
£50,001-100,000	**2%**
More than £100,000	**4%**
Nothing	**31%**
Don't know	**21%**

Sample: those responsible for pensions (205 respondents)

If executives reduced or opted out of pensions provision, what did employers offer instead?

Nothing	**54%**
Cash compensation	**18%**
Share options	**2%**
Self-invested personal pensions (Sipps)	**2%**
Employee benefits trust	**1%**
An unapproved arrangement (e.g. UURB or FURB)	**1%**

Sample: those responsible for pensions (205 respondents)

Nine of our respondents put the total cost of pensions simplification legislation at over £100,000, with five of these organisations employing more than 10,000 staff. This bill is likely to consist of consultancy, legal, financial and IT costs. More than a fifth of respondents, however, could not put a figure on implementation costs. Perhaps these were buried within their normal pensions administration spend.

It is not surprising that of the 18% of respondents which offer cash in lieu of pension contributions for their top earners, it is an option most commonly employed by financial firms with a workforce of over 10,000 staff. Other executives were not so fortunate. Some 111 respondents (54%) offer no alternative benefits to those who elect to reduce contributions or opt out of the occupational pension.

Providers of self-invested personal pensions (Sipps) or share option plans might have expected these arrangements to gain in popularity due to the instigation of pensions simplification legislation, but this trend has, so far, failed to emerge.

Similarly, employers have not rushed to offer employee benefits trusts or unapproved arrangements as alternatives.