JUNE 2010

employee benefits

ENGAGING STAFF IN PENSIONS

Roundtable discussion

ATTRACTIVE QUALITIES
Business reasons for promoting pensions

SHARING THE KNOWLEDGE
Financial education is the key to success

RESPONSIBLE ATTITUDES
Encourage a savings culture among staff

Effective employee engagement can create a win-win situation

Everyone gains when staff are engaged with their benefits, says **Ann Flynn**, head of marketing communications, corporate pensions at Scottish Widows

The recession is still at the forefront of all our minds. With low pay rises and little or no bonus for many, workers are feeling the pinch. Employers are under pressure to attract and retain the best staff to drive their business forward, but can no longer afford to do so by offering high salaries or increasing their benefit spend.

But despite the lack of significant pay rises, people do still want to save. *Scottish Widows UK pensions report 2009* showed a rise in the savings index to 54%, up 3% on the previous year and indicative of the trend of the past three years. Overall, workers are feeling worse off than they did five years ago and for some, saving for the short term has become the priority. One-fifth of the population is not saving at all, however.

Despite short-term saving being a focus for some, workers do want help in making the right decisions about their long-term financial management. *Scottish Widows workplace research 2008* showed that access to financial education, guidance and advice is their number one need.

The population's trust in financial services has been shaken by the recession, with doubts cast on the security of their savings and the industry's integrity damaged by the banker's bonus scandals. Employers are well placed to help staff fulfil these needs because they are still trusted by their workforce. The *Scottish Widows UK pensions report 2009* showed that workers trust their employers and many enjoy access to employer-sponsored savings, seeing these as a major incentive to save.

A quality company pension scheme is a key factor for just under half of workers moving jobs and 54% of staff say their workplace pension scheme is an incentive to stay with their current employer. We know employers are concerned about employees not appreciating or making use of the benefits they are offered despite being stressed by money worries.

GOOD PENSIONS

So if workers are attracted by, and value, the provision of good pensions, why do employers still have the problem of their staff not fully making use of, or valuing, the benefits they are offered?

The answer is effective worker engagement. If an employer can put in place a compelling programme to engage workers with the benefits they offer, then both parties stand to benefit. But what is the key to success? Employers have publicised their benefits offer for some time, but can still experience low take-up.

The key is perhaps empowering workers to take control of their own finances. That means giving them access to the financial guidance, information and tools they need to make the right decisions about their long-term financial management and doing so in a way that makes it convenient for them to access. For most (87%), online access is the preferred route; workers want to be able to see and manage their savings online. Some employers we spoke to for the *Scottish Widows workplace communication research October 2009* have advocated allowing staff time at work to manage their finances.

Providing needs-based information can make it easier for staff to identify how best to use the benefits that are available to them. Once employees feel they are making better-informed decisions about how to use their benefit package, the value of those benefits becomes more obvious.

Employers also benefit because the value their workforce places on their reward package will increase without needing to increase the benefits spend. So, if executed correctly, a worker engagement programme could produce a win-win situation for both workers and employers.

Editor's comment

Expert views on a crucial issue

A few weeks ago, we gathered together leading pensions managers and experts at the **Employee Benefits/Scottish Widows Pensions Roundtable** to discuss the challenging issue of 'Engaging staff in pensions'.

I often have to remind myself that just because those of us involved in benefits have some grasp of pensions, it does not mean the vast majority of people out there have any idea about, or interest in, the topic.

The onus is therefore on us as employers and experts to spread this knowledge in a way that is both appealing and easy to understand for British workers at all levels because we have a duty of care to ensure they do not retire in poverty because of lack of savings.

During the two-hour roundtable discussion, which took place after the Employee Benefits Pensions Summit down in Surrey in April, our panel of six experts (pictured below) came up with new and intriguing insights into how leading employers are engaging staff in pensions, as well as forward-thinking concepts using ideas from leading online brands and websites.

The bottom line is that although websites and intranets can be used to engage staff, these do not work on their own and invariably need word of mouth and face-to-face discussions for messages to be driven home.

We also filmed part of the discussion and you can view the 10-minute video online at http://webcast.employeebenefits.co.uk/

Debi O'Donovan, Editor

EMPLOYEE BENEFITS/SCOTTISH WIDOWS PENSION ROUNDTABLE PANEL MEMBERS

Duncan Brown, Director of reward services, Institute of Employment Studies

John Chilman, Group pensions director, First Group

James Churcher, Pensions manager, Telegraph Media Group

Ricky D'Ash, Remuneration specialist, Equity Insurance

Tina Odell, Pensions manager, Sony

John Taylor, Market director, corporate pensions, Scottish Widows

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This publication is published by *Employee Benefits,* Britain's leading magazine for benefits decision-makers. *Employee Benefits* is published by Centaur Media plc, the UK's premier independent business publisher. *Employee Benefits* accepts no responsibility for loss or damage to material submitted for publication. ISSN 1743-081X.
Subscribe: 020 7292 3719 or online at **http://sales.centaur.co.uk** For information about Centaur's products, visit **www.centaur.co.uk**

Feelgood factor

A good pension can attract talented staff and enhance an employer's reputation

It is a truism to say people are the most important element in most modern businesses. Phrases such as "our people are our greatest asset" are heard countless times in the corporate world.

It therefore follows that recruiting the right people, keeping them motivated and making sure they are happy are vital elements in running a business.

As every compensation and benefits professional knows, to recruit, retain and reward staff, it is essential to have a competitive range of employee benefits, including a pension scheme. This is especially true in organisations where people provide the competitive edge.

Ricky D'Ash, remuneration specialist at Equity Insurance Group, says: "If employers are looking to get the right talent, they need to offer competitive benefits. If one organisation does not offer a pension scheme and others do, the talented people will go to the other employers."

However, offering a pension scheme among other benefits is not enough. Employers need to communicate to staff what benefits they are offering and how they work, while also emphasising how valuable they are. This will help staff to understand and make the most of their benefits and the employer will gain from the feelings of wellbeing and gratitude among its staff.

James Churcher, pensions manager at Telegraph Media Group, says: "If staff know there is a good pension scheme, it is one of the things that help them feel rewarded and encouraged. There is a psychological motivation benefit that is quite hard to quantify, but it is real."

Engaging staff on pensions goes deeper than merely creating a "feelgood" factor, although this is important. Much like a property, a pension is likely to be one of an employee's most significant financial assets as they go through their career. At retirement, the pension has to provide an income for an individual, and probably their spouse, for an increasingly long period, as people look to retire earlier, enjoy an active life in retirement and benefit from increased life expectancy.

Despite the obvious financial benefits, there is plenty of evidence to suggest that many people have little

> "If one organisation does not offer a pension scheme and others do, the talented people will go to the other employers"
>
> **Ricky D'Ash, Equity Insurance**

understanding of the realities of pension provision.

For example, it may come as news to many employees that the full basic state pension in 2010/11 is £97.65 a week and, as a guide, annuities for defined contribution (DC) schemes operate on a 20 to 1 ratio of capital to income, so that a pension fund of £100,000 will buy an annuity income of £5,000 a year.

AFFORD TO RETIRE

Employers are increasingly concerned about staff having enough in their pension fund to able to afford to retire. This stems from organisations' need to protect their own reputation, as well as the paternalistic obligation to look after their staff. "If people exiting an organisation don't have enough income, the employer may end up with poor performance," says D'Ash.

He explains that if staff see former colleagues impoverished in retirement or older staff being forced to unwillingly delay their retirement, while their productivity is diminishing, workplace morale will undoubtedly be damaged.

Managers may need to

spend more time managing workers out of an organisation, which in some cases could damage an employer's reputation.

John Chilman, group pensions director at First Group, says: "Are people going to come back in 25 years and ask 'why did you [the employer] provide me with a vehicle that allowed me to retire?'

"And in my industry, you don't want to see bus drivers and train drivers who are only just able to get on the bus or the train, then be responsible for the lives of other people. It is inappropriate."

ADEQUATE PROVISIONS

Employers are increasingly aware that they need to engage with staff on pensions to help them make adequate provisions.
This is particularly important given the widespread trend in the private sector to shut final salary or defined benefit (DB) schemes to new entrants, or even to future accrual, and instead use DC schemes, which place the investment risk on the employee.

Add to this the widespread public ignorance of pension matters, and the general consensus from the roundtable panel was that the UK has the makings of a future pension disaster.

Churcher says: "A large proportion of people do not realise how big a pension fund an employee needs to build up to be able to live in retirement and how long they are likely to live in retirement. Employers have a responsibility to encourage and facilitate pension saving."

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"Some employers who have switched from DB to a relatively cheap DC are now thinking 'maybe we went a little too far'"

Duncan Brown, Institute of Employment Studies

Ironically, the problem of a lack of pension awareness among today's workers who are in DC pensions could be compounded by the relative comfort of current retirees, who are enjoying the fruits of generous DB pensions.

Scottish Widows' market director, corporate pensions, John Taylor, speaks of attending pensioner lunches and meeting relaxed, tanned retirees just back from a holiday. "What we need to worry about is what is going to happen in 10 to 20 years' time when the next generation comes along," he says. "It goes back to that reputational issue."

Employers will also notice other differences when offering staff a DC pension scheme, such as not being able to use DB schemes to facilitate early retirement.

SAFETY VALVE

Duncan Brown, director of reward services at the Institute of Employment Studies, says: "In the last 18 months, we have seen a number of organisations use early retirement as a way of downsizing and it has been a useful safety valve for them. Some employers which have switched from DB to a relatively cheap DC are now thinking 'maybe we went a little too far'."

Staff engagement can be used to overcome the challenges of moving to a DC plan. One challenge a good engagement strategy is designed to overcome is the idea that DC schemes are inherently inferior to DB schemes.

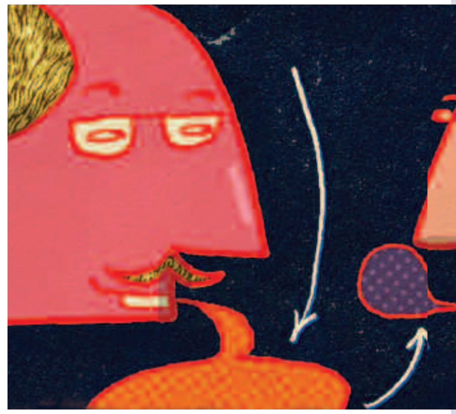
"DC with the same levels of contribution as DB will produce good benefits," says Churcher. "The tragedy is that over the last few years, a lot of employers have replaced DB schemes with contribution rates of 20% with DC plans with 6% contribution rates. Guess what? The benefits are not as good."

There are also positive aspects to DC pension plans that should encourage staff to save, such as the rewards to be gained in economic boom times when the stock market is performing well.

Tina Odell, pensions manager at Sony, says: "In the 1990s, employers would have struggled to introduce a DB plan. Employees wanted the portability of a DC plan and were very happy to sit back

and enjoy the benefits of a DC plan."

There are a number of very sound business and social reasons for employers to engage with their staff on pensions, including protecting the organisation's future reputation and fulfilling its paternalistic obligation to help staff achieve a comfortable retirement. So employers must work tirelessly to ensure staff understand the importance and value of an occupational pension scheme ■



Quality control

Investment, administration and providers' credentials are vital factors to consider for employers moving to a DC scheme

In the past, defined benefit (DB) plans operated on a trust basis – a proven format offered along with independent oversight supplied by a board of trustees assisted by professional advisers.

But the mass migration to defined contribution (DC) pensions has changed this and put more responsibility on the employer. This has thrown up a vacuum in many cases whereby neither employer nor employee take full responsibility for the performance of a plan.

DC schemes are often run on a 'contract' basis, whereby an employer brings in an adviser and/or pension provider to offer staff an all-in-one arrangement, where the adviser and/or provider handles all investments, administration and member communications.

A responsible employer will want to ensure its DC provider is doing a good job, or it could find the greater cost certainty of DC is outweighed by the time and expense of sorting out problems in a faulty scheme.

For employers, an important starting point for assessing the performance of a pension provider is to use experts, both to choose a pension provider and to monitor how well a scheme is working. James Churcher, pensions manager at Telegraph Media Group, says: "Most employers, quite wisely, will use an employee benefits consultant who knows the market and can help them form a shortlist. Very few employers would know where to begin with this."

"I would be very reluctant to go to a provider that offered only their own funds, with no guest funds within the range"

James Churcher, Telegraph Media Group

REALLY COMMITTED

Churcher says employers should seek providers which are really committed to pensions. The provider should also offer a wide range of investment funds, daily pricing, realistic charges, and a choice of passive and active funds.

"I am not saying every employee should be offered 700 funds, but I would be very reluctant to go to a provider that offered only their own funds, with no guest funds within the range," he adds.

Administration is also a vital factor to think about. Churcher says employers should consider the types of quotation offered, fund switching facilities, how members' queries are handled, what information members get on decumulation options as they near retirement, and the provider's record for reliability, security and accuracy in handling member records.

Ricky D'Ash, remuneration specialist at Equity Insurance Group, says: "I have experience of dealing with a provider when the administration really was not that good. You end up spending time within the business that you should not be spending, trying to do someone else's job.

"One of the best ways to ascertain if you have the right provider is to visit its main office, if possible, to get some quotes from actual clients, or speak to them, so you can see how the administration has been for their business."

D'Ash says an employer should ensure any testimonials are from businesses comparable to their own, not much smaller or bigger.

Duncan Brown, director of reward services at the Institute of Employment Studies, says it has become easier to gather information on providers, but employers still need to ask the right questions. And Tina Odell, pensions manager at Sony, says a contracted-out DC scheme is not a buy-and-forget

Cameron Law

Comparing fees with index-tracking funds in this way allows a like-for-like comparison to be made, says Churcher.

John Taylor, market director of corporate pensions at Scottish Widows, says employers should make sure their provider is fully committed to the pension market. "It is vital to know you can work with their people and that they are committed to their proposition and correcting any service issues. I would extend that to investment because the governance around investment choice is probably as important as investment performance.

"Very few fund managers can consistently outperform investment indices, so if a provider is monitoring that and is prepared to change them, then that is a comfort for employers and employees."

purchase. "It is going to require continued attention, and governance is the key to making sure it works effectively."

As well as considering annuity purchase and other retirement options, employers should also remember their scheme will have deferred members who have moved on but have left their accrued benefits behind in the scheme.

"What is your responsibility to deferred employees?" says Odell. "How are you going to take care of them?"

DEFERRED MEMBERS

D'Ash says administration charges for deferred members might rise. "Unless the fund has really good investment returns, the increased charges may eat away at what is in the member's pot," he warns.

Employers should also look at all the bells and whistles needed to provide the right administration services, both for the bulk of the workforce and for senior staff with more specialised needs. John Chilman, group pensions director at First Group, says these differentiating features could be a factor when selecting a provider, along with the more fundamental aspects of administration. "No one likes getting a call from a member saying something has gone wrong," he observes.

The annual management charge (AMC) is also likely to be a key consideration for employees. Questions around AMCs include whether they should be linked to the pension fund's performance, and whether members will appreciate better performance for a slightly higher cost.

From an employer's point of view, says Chilman, it is important that if members want to invest in, say, emerging markets or other more esoteric areas, rather than in a default fund, they realise there is an additional cost. In this way, value for money can be obtained for members, while those wanting extra options can choose to take them for a slightly increased cost.

A useful way for employers to benchmark the investment costs of a provider is to look at the costs for a plain vanilla index-tracking fund. Charges on this type of fund should be very competitive, so the costs quoted will indicate where a provider sits in the spectrum.

"A DC scheme is going to require continued attention, and governance is the key to making sure it works effectively"

Tina Odell, Sony

UP TO SCRATCH

With the greater use of DC contracted-out pensions, employers need to ensure their provider is up to scratch. It is likely the employer will not be a pensions expert, so a benefits consultant can be vital in advising on what should be expected and on the latest market developments.

Administration is a key issue because members will complain if, say, annual benefit statements are wrong, and if this continues, it will reflect badly on the employer.

Investment is another factor, as is the provider's history and resources. By taking the time to look at what is on offer and how their provider is doing, employers can help staff reap the rewards of a high-quality pension scheme ■

Salutary lessons

Getting staff interested in financial matters is not easy, but it is a necessity when it comes to pensions

As any compensation and benefits professional knows, the level of financial knowledge among today's employees varies hugely.

Some staff may want online access to their pension pot to implement their own investment decisions based on a serious interest in business and finance, while others may barely understand what a pension is.

Equipping employees with financial knowledge is becoming more important in a world increasingly dominated by defined contribution (DC) pensions, which place greater responsibility on individuals for decision-making. And at a time when staff can pick and choose benefits in flex packages, financial education is also needed to get them to appreciate the advantages of salary sacrifice, which some can find difficult to grasp.

HUGE CHALLENGE

Tina Odell, pensions manager at Sony, says financial education is a huge challenge for employers. "One of my frustrations is that people have immense awareness and understanding of quite complex financial products, such as mortgages or mobile phone contracts, and yet with something as simple as a DB or DC pension plan, they cannot understand it."

One of most difficult audiences to get the savings message across to is younger employees, who find it hard to imagine themselves in retirement and living on a pension. Pension providers also recognise the scale of this challenge.

John Taylor, market director of corporate pensions at Scottish Widows, says just over 50% of employees will take up a pension with an employer contribution. "The others are turning their back on free money," he adds. "Some understand what they are doing, but most do not."

Panellists at the roundtable discussion suggested that one way to implant a savings habit was to encourage staff to save for things they wanted, such as a new car, before building in pension saving alongside this. Pointing out the value of an employer's contribution and tax relief could help show staff the value of their pension scheme.

Duncan Brown, director of reward services at the Institute for Employment Studies, says: "Pension education seems to be more effective if it is part of a broader picture of financial education as a whole.

"If people do not have an understanding of concepts such as compound interest and annuity rates, you haven't a hope of getting them into a pension discussion."

RECOGNISE DIVERSITY

Brown also says it is important that employers' financial education programmes recognise diversity in the workplace. Pushing a uniform message does not work for everyone, so employers need to segment their workforce into different groups by conducting attitude surveys. So, for younger workers who see retirement as a distant horizon, talking about saving for more immediate needs is a better way to get their attention.

Employers embarking on a financial education programme can use a number of strategies and techniques to get their message across. One of the most obvious tools at their disposal is the internet, which can be just as effective for blue-collar employees and manual workers based outside the office.

John Chilman, group pensions director at First Group, says take-up of his firm's online financial education tool exceeded expectations in attracting bus and train drivers,

"Pension education seems to be more effective if it is part of a broader picture of financial education"

Duncan Brown, Institute for Employment Studies

with more than 50% of staff logging on to see what difference various accrual rates would make to their eventual pension.

"The tool is helpful and has raised the debate around pensions in the canteens and workshops," says Chilman.

As well as giving staff access to 'what-if' modelling tools, a benefits website can enable employers to show workers what their contemporaries, in similar financial circumstances, have done with their pensions. Amazon.co.uk uses a similar technique to show purchasers of any given item what other buyers of the same product have also bought from the company's website.

Chilman points out that trade unions can be powerful advocates for pensions and other employee benefits if they are brought onside and treated as partners.

AVOID JARGON

Taylor says a variety of methods should be used to present financial education to employees, ranging from online tools to face-to-face meetings. At the same time, employers should bear in mind that jargon can put staff off.

Ricky D'Ash, remuneration specialist at Equity Insurance, says: "What do we mean by actively managed funds, passively managed funds, lifestyle funds and default funds? There is a lot of terminology there and it goes straight over the head of the average person."

Naturally, employers are careful not to break any rules set out by the Financial Services Authority when offering staff financial education. The FSA has decreed that only those firms and individuals that it has authorised are allowed to sell or advise on financial services products.

James Churcher, pensions manager at Telegraph Media

Cameron Law

Group, says that while many employers are preoccupied with making sure pensions communication to staff is safe, the consumer advertising industry is engaging with people on financial issues in an offbeat, exciting, creative way.

Nevertheless, Churcher says no one should underestimate the importance of pensions for employees. "We are talking about what people will use to buy their food and clothes and, hopefully, holidays for the last 20 or 30 years of their lives. Communication is going to be the key."

The arrival of the national employment savings trust (Nest) and auto-enrolment in 2012 will change the rules of the game. These reforms should boost pension saving, but will not be a panacea, says Taylor. "We need to disabuse people of the notion that an 8%

contribution to Nest will give them enough for holidays in retirement," he stresses.

Odell says she hopes media coverage of Nest will raise awareness of pension issues, pointing out that media coverage of the banking crisis showed it was possible to explain quite complicated subjects in a straightforward and simple way.

"I never thought I'd see the day when papers like *The Sun* would report the banking crisis in a totally understandable fashion," she says.

If the benefits of this type of media coverage are harnessed to pension stories, then the type of financial education employers want to see could get a major boost, says Odell.

FINANCIAL AWARENESS

Churcher says the Telegraph Media Group has improved its financial education as a result of a staff financial awareness programme run jointly by its HR and pension departments.

"Pensions are a huge, complicated financial issue, but this covers the whole realm of financial awareness," he says. "We have run free seminars during the working day. We realised that if you give people free sandwiches, then they are [more] likely to come."

Podcasts were used to supplement the seminars and the company also paid for an independent financial adviser to come onto its premises to give free, one-to-one financial clinics to staff.

"He does not do any product selling, but will give advice and the subject that people want advice on most is pensions," says Churcher.

"We have run free seminars during the working day. We realised that if you give people free sandwiches, then they are likely to come"

James Churcher, Telegraph Media Group

Providing independent advice like this can be a useful financial education tool because employers cannot give advice, only information. Churcher says that although this has a cost, it is not huge compared with the fees associated with a DB scheme, and it provides a highly valued benefit and has led to a rise in pension provision.

Employers should also use financial education when communicating benefits to employees to get messages across on the value of perks, such as pensions.

John Taylor, market director for corporate pensions at Scottish Widows, says: "Putting £1 in someone's pocket costs a lot more than £1. Finding a way of getting employees to value what is going into their pension pot today is the trick here."

One idea that could work for visually-minded staff could be a version of the thermometer graphic used for fund-raising, which uses a red line to show how much of a target amount has been raised.

VISUAL IMAGERY

Visual imagery can also be used to enliven annual benefits statements, where most employees focus solely on the current value of their pension and its value 12 months earlier.

In this context, a fall in value may look and feel disastrous, so it is important for an employer to put over key messages on market volatility and the importance of investing for the long term.

Nevertheless, the fact that employees resent any fall in the value of their pension pots has led to plans for Nest to involve

investing contributions made in an employee's early years in a cash or guaranteed fund that will not fall in value.

This shows the importance of meeting employee perceptions on how a benefit works. If employee contributions are initially invested in low-risk funds, once the assets have built up to a certain level, a financial education programme could be used to help staff become more sophisticated investors.

After all, an employee's interest in pensions increases significantly when their pension fund is equal to, or greater than, their annual earnings. Once this point is reached, it may be a good time to start talking to an employee about their pension fund and how it could be invested.

The challenges of financial education may seem daunting to employers, but there are various means at their disposal to achieve their objectives. A good financial education programme should enhance staff appreciation of benefits and increase understanding of the need to save for their retirement ■

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Sense of worth

Employers and staff both need to see the true value of perks

If employers are to get the full value from investing in pensions and benefits, staff have to appreciate their reward package, particularly the value it offers compared with obtaining the perks privately.

If not, benefits spend may be wasted, because it does not help employers attract and retain the best people, or make staff feel valued and rewarded.

Organisations may also want to assess the impact of their benefits on business performance.

But, in reality, it can be hard for staff to quantify the value of different benefits in their reward package and for employers to assess perks' business impact.

Tina Odell, pensions manager at Sony, says: "I worked at an organisation that had a very generous reward package. We had a one-page list of benefits and at the bottom was a bottle of champagne for an employee's birthday. The impact that the champagne had, which was bought in bulk and probably cost £10 each, was huge."

By contrast, putting a value on a pension scheme, which may cost millions of pounds to run, is far harder for both employers and employees.

"Because we have less turnover of staff, we are having fewer vehicle collisions because new drivers are more likely to crash"

John Chilman, First Group

John Chilman, group pensions director at First Group, says employers that offer a good pension could benefit in unexpected ways. "We have had a massive increase in the take-up of our pension plan and have seen pension costs going up," he says. "One benefit is that because we have less turnover of staff, we are having fewer vehicle collisions. This is because new drivers are more likely to crash. We are also spending less on training."

Staff appreciation of benefits probably varies according to the industry sector and employee profile. Middle-aged staff in the financial sector, for example, will certainly bemoan the absence of a pension.

Ricky D'Ash, remuneration specialist at Equity Insurance, says: "There would be a knock-on effect on customer service. If an employer did not offer a pension, you would not get the right people."

A number of other benefits are more likely to cause a buzz among staff, however. Chilman says staff at First Group were excited about a discounted travel scheme, offering cheap rail and bus travel. "They can use that for a day trip into London, whereas a pension is for something that is too far away," he says.

Seniority and salary levels are also important to consider. Highly paid staff are likely to see PMI with family cover and a good pension scheme as minimum requirements. D'Ash says: "The lower down the workforce you get, the more likely staff are to be happy just to have cash and a salary rise, rather than a lot of benefits."

BUYING IN BULK

But employers still have good reasons to offer benefits. For example, buying in bulk can obtain a better price than an individual employee could get. This helps to engage with staff over the value offered.

Duncan Brown, director of reward services at the Institute of Employment Studies, says: "For healthcare benefits, for instance, an employer can point out how much it saves, but few employers make any systematic attempt to do this."

Brown points out that not monitoring benefit costs can become a problem with major items, such as pensions, where costs can be substantial, because there is then no reference point to illustrate the true value of the benefit ■

Encouraging a savings culture among employees will boost interest in pensions

Easy access to credit, boosted by advertising and today's culture of instant gratification, has led many people to run up significant debts.

According to the study *Financial wellbeing in the workplace*, published by the Institute for Employment Studies (IES) in 2009, the average UK worker has an annual income of just over £25,000, has credit card debts of about £3,000 and £8,000 in other forms of debt, such as personal loans.

The IES found that more than 40% of employees had sought financial advice, but less than 15% did this through their workplace. This shows there are opportunities for employers to help staff with financial issues, such as debt and the need to develop a savings habit.

During the roundtable discussion, it was argued that employers that helped their employees save in the short term, either in a sharesave scheme or individual savings account (Isa), could foster a greater interest in pensions.

Ricky D'Ash, remuneration specialist at Equity Insurance, says: "I think short-term saving is a good idea. The earlier an employee starts saving for their pension, the better it will be for them in the longer term. If you get people in the habit and culture of saving for something they like, it can be a catalyst to get them into the right frame of mind."

John Chilman, group pensions director at First Group, adds: "It is a good idea to do this through payroll deductions. If you have never had it, you don't miss it. Share plans have been a great success in recent years and people earning relatively modest amounts have had huge windfalls."

Chilman says short-term savings vehicles could also help money management by enabling staff to pay off student loans and other debts.

The counter-argument to this is that if staff concentrate on paying off debts and loans, they are delaying the start of a pension plan. James Churcher, pensions manager at Telegraph Media Group, acknowledges that short-term saving is more likely to address the concerns of younger employees, but says it should not overshadow employers' messages on long-term saving.

"I am nervous that we do not lose sight of the message that after an employee has repaid their student loan or bought their first home, they do have to think about the very long term. An employee is probably going to earn for another 30 years and then live on what they have set aside for another 30 years after that."

"The key is to use short-term saving as a hook to make people aware of long-term financial planning"

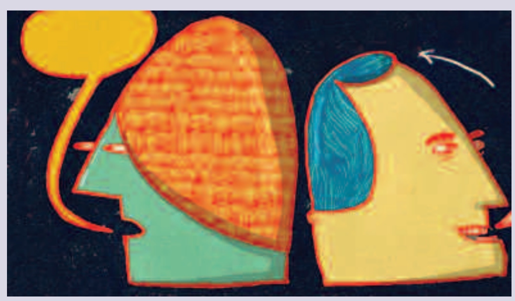
John Taylor, Scottish Widows

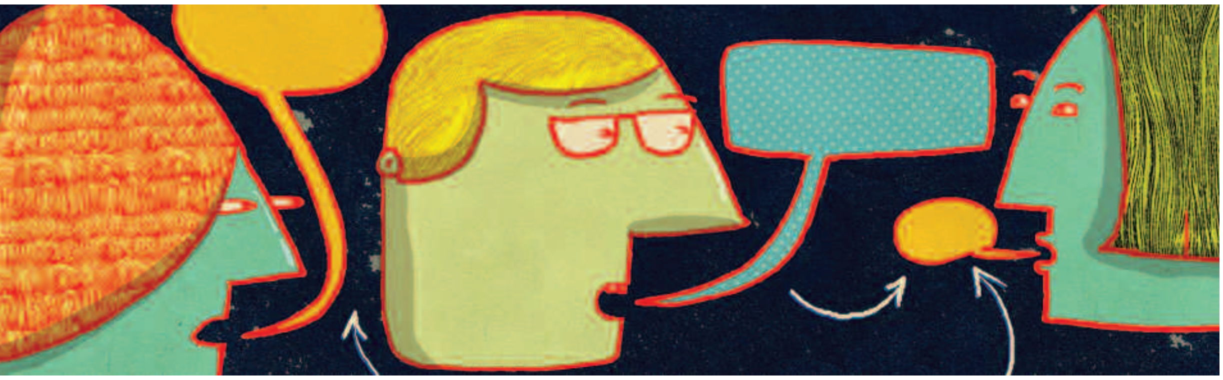
SOPHISTICATION

So although encouraging short-term saving is a good thing, employers must also bear in mind that employees will vary in their degree of financial sophistication.

If offered an array of savings vehicles with differing time horizons through one platform, highly paid and financially sophisticated staff may have the means and expertise to maximise both short-term and long-term savings, but less financially savvy employees may end up focusing on short- ▶

Providing for the future





term goals at the expense of their long-term financial health.

"We have then recreated the problem that when people stop working, there is not enough money to pay their gas bill," says Churcher.

John Taylor, market director of corporate pensions at Scottish Widows, says: "We are quite big advocates of this type of approach, but if it is done badly, you could end up with a succession of car savings plans, for example. The key to doing it well is to use short-term saving as a hook to make people aware of long-term financial planning.

GREAT SUCCESS

"If you can start off with employees saving for a car, but then over the next five years if you can make them aware of the need to save for the future, I think that is a great success."

Employers can encourage staff to save in vehicles such as Isas by easing the administrative burden of setting it up or helping them choose a provider they can trust. Sony pensions manager Tina Odell says: "One of the big barriers to opening an Isa is the hassle factor. It is much easier to save through a payroll deduction, so it is more likely to happen."

One way of helping staff save for the short term as well as the long term is a corporate wrap platform. Product providers and benefits consultants often talk about these such platforms and more and more employers are starting to offer them to staff.

A corporate wrap could be described as the latest version of a defined contribution (DC) platform, but with added features. For example, a wrap may offer employers a DC pension that can be a simple, no-frills plan but with the option to upgrade it to a group self-invested personal pension (Sipp) for employees who want a wide range of investment choices.

Alongside the pension and using the same administration platform, a corporate wrap could also offer access to a wide range of investments through Isas and other tax wrappers, links to a share save scheme and even insurance and healthcare benefits.

The wrap part comes through using online technology, which gives staff access to all these services, plus tools to help them manage their affairs, via a single portal.

Corporate wraps are still evolving and could help short-term saving as part of an overall benefits strategy.

Churcher says: "I hope wraps will move away from just offering tax-efficient services for the highly paid and towards helping financial planning in a flexible way for the more modestly paid."

D'Ash says corporate wraps could be a natural add-on to flexible benefits and the provision of independent financial advice, perhaps as a flex item, could help employees move between the two.

> "One of the big barriers to opening an Isa is the hassle factor. It is much easier to save through a payroll deduction, so it is more likely to happen"
>
> Tina Odell, Sony

TAX WRAPPERS

Taylor says that in the past two years, Scottish Widows' focus on corporate wraps has moved from using different tax wrappers for higher-rate and basic-rate taxpayers to engaging with staff.

"I don't think it is the silver bullet, but it can do a lot more to help with long-term planning than current flex platforms. Engaging with staff on financial planning can lead to much better outcomes for them."

So corporate platforms could offer a route for employers to help staff deal with debt, while also guiding them towards prudent decisions on long-term financial planning. Short-term saving is likely to be an important part of this, because it can attract younger staff who find pensions too remote.

But the ultimate goal is to place short-term savings in a broader financial planning context. If this can be done, employers can play a vital role in helping staff to reach both their short-term and long-term financial goals ■

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* IPSOS Brand Tracking Study February 2010
~Source: Lloyds Banking Group Market Share 12.9% of Core DC Group Pensions Market, ABI Total Corporate Market Stats Q3 2009

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