employee benefits

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Pensions Research 2019

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Jonathan Watts-Lay | director
Wealth at Work

Engaging with savings

Taking a wider view of pensions

Pensions have not been the most engaging or exciting of topics in the past, despite often being the second most valuable benefit an organisation provides to its employees, after salary.

However, the fact remains that many employees need to save more before it is too late, and employers should, therefore, be working hard to engage them.

While auto-enrolment has come some way in helping staff save for retirement without having to actively engage, it is generally accepted that current minimum contribution levels are not enough to create a sufficient retirement income.

Indeed, the results of this year's research show that more than half (54%) of employers do not feel confident that the majority of their workforce is saving enough to be comfortable in retirement.

Rather than leaving this until it becomes more relevant in later life, employees need financial education early on in their careers to understand the value in starting to save for retirement well in advance, and the huge difference it can make to income after leaving work.

Freedom and choice in pensions – giving individuals the power to decide how to manage their retirement income – has certainly made an impact over recent years. However, with these freedoms has come much higher risk for employees, and organisations are justifiably concerned.

The 2019 pensions research has identified the top five retirement concerns employers have for their staff: uncertainty about how to make the best decisions when accessing their pension benefits (74%), lack of a financial plan (59%), running out of money in retirement (58%), financial security in retirement (54%), and a lack of understanding around the tax implications of accessing a pension (43%).

It is positive, then, to see that the majority of employers (68%) want to support staff in making informed decisions at retirement, and that 60% see it as part of their duty of care.

Some employers have, in fact, already taken steps to provide this support, with 43% reporting that they run seminars on relevant topics in the 12 months ahead of retirement, and more than half (53%) offering their employees access to financial advice.

It is also interesting to observe that where financial education has been introduced, more than two-thirds (70%) has been delivered by face-to-face seminars.

The bottom line is that pensions and retirement savings do not have to be complicated, as long as the right support is made available.

Providing access to financial education, guidance, and regulated financial advice can help employees throughout their career, and especially at retirement. It can also encourage them to look more holistically at all their finances, not just their pensions, to ensure informed choices are being made across the board that will help establish a more stable future.

Many workplaces are seeing the benefits of bringing in specialist providers to help support employees; this should lead to a workforce that is better equipped to deal with the many financial issues that they may face throughout their working life, and importantly at the crucial point of accessing their retirement savings, leading to improved outcomes for all eb

Editor's comment

Debbie Lovewell-Tuck | editor
Employee Benefits

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Are we wedded to a gender pensions gap?

This year's pensions research was set against a backdrop of uncertainty. At the time of writing, Britain's exit from the European Union has been delayed until 31 January 2020 and an early general election called for 12 December 2019. This throws into doubt the future of legislation such as the Pensions Schemes Bill, introduced in the Queen's Speech on 14 October.

The very nature of defined contribution (DC) pensions means that an undercurrent of uncertainty has always run alongside such schemes. Unlike the historical surety of defined benefit (DB) schemes, which guaranteed the income members could expect to receive upon retirement, DC scheme members are subject to fluctuations in the value of their pension fund.

It is hardly surprising, then, that uncertainty around how to make the best decisions when accessing pension benefits tops the list of concerns affecting respondents' workforces in the run up to, or during, retirement. This year, about three-quarters (74%) said this was the case for employees in their organisation. Although the proportion that have cited this as a key concern for their workforce has fluctuated over the years, such uncertainty has been an issue recorded by this research since 2014, when 60% said this was the case.

Making the correct decision at this point is vital if employees are to maximise their pension savings and achieve the retirement they desire. Employers are well placed to ensure staff are equipped with the information, tools and guidance they require to make informed decisions. When it comes to providing at-retirement support, however, less than half of respondents said that they currently do so.

Of the 46% that do provide support at this stage, just over two-thirds said that their main motivation was to assist individuals in making informed decisions. However, unless employees have saved enough throughout their working lives, at-retirement support may be too little, too late. Worryingly, just 17% of respondents were confident of staff being well prepared for retirement, with 54% stating that their employees are not saving enough for a comfortable later life.

The question of just who should take responsibility for overturning this has been long debated. With the government in an ongoing state of flux and the turbulent political climate showing no sign of abating, employers and employees may find that working together achieves the best possible outcomes eb

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Key findings

The survey, which was conducted in October 2019 among readers of https://employeebenefits.co.uk, received 135 responses. Respondents are involved in pension strategy at their organisation, either as a primary decision maker or decision influencer.

83%

of respondents are either aware that their employees are not saving enough for retirement, or are unsure whether staff will have enough to be comfortable

70%

of respondents that offer financial education to employees do so via face-to-face methods, whereas only 48% use online tools and modellers

34%

of respondents say staff realise the value of the benefit more following the introduction of pension freedoms, while 26% say they are more engaged

64%

of respondents have no plans to measure their gender pension gap, while 56% of respondents state that they have taken no action to reduce it

74%

of respondents see uncertainty about how to make decisions when accessing pensions as a key concern for staff as they approach retirement

53%

of respondents offer employees financial advice at retirement, while 43% run seminars in the lead up to an individual's retirement

34%

of respondents see increased costs as a key impact of pension freedom; a drop from the 50% who felt this was an issue last year

48%

of respondents report that 90% of their employees are enrolled in their organisation's primary pension scheme

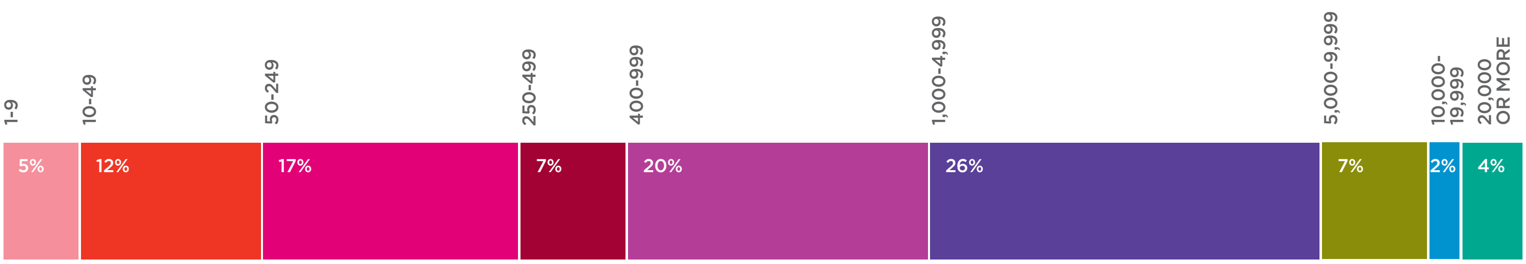
9%

of respondents say that they have never conducted a pensions communications exercise, whereas 67% have done so within the past year

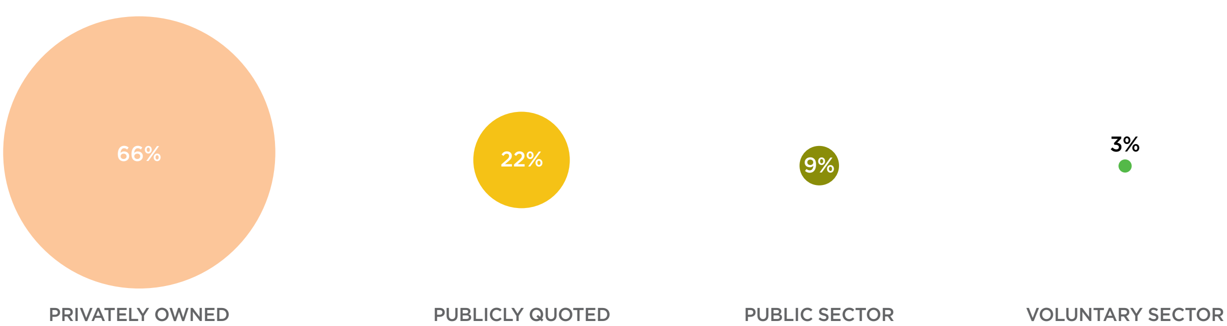
60%

of respondents see providing at-retirement support as part of their organisation's duty of care, and 40% believe it aligns with workplace culture

Number of employees in respondents' organisations



Respondents' organisation type



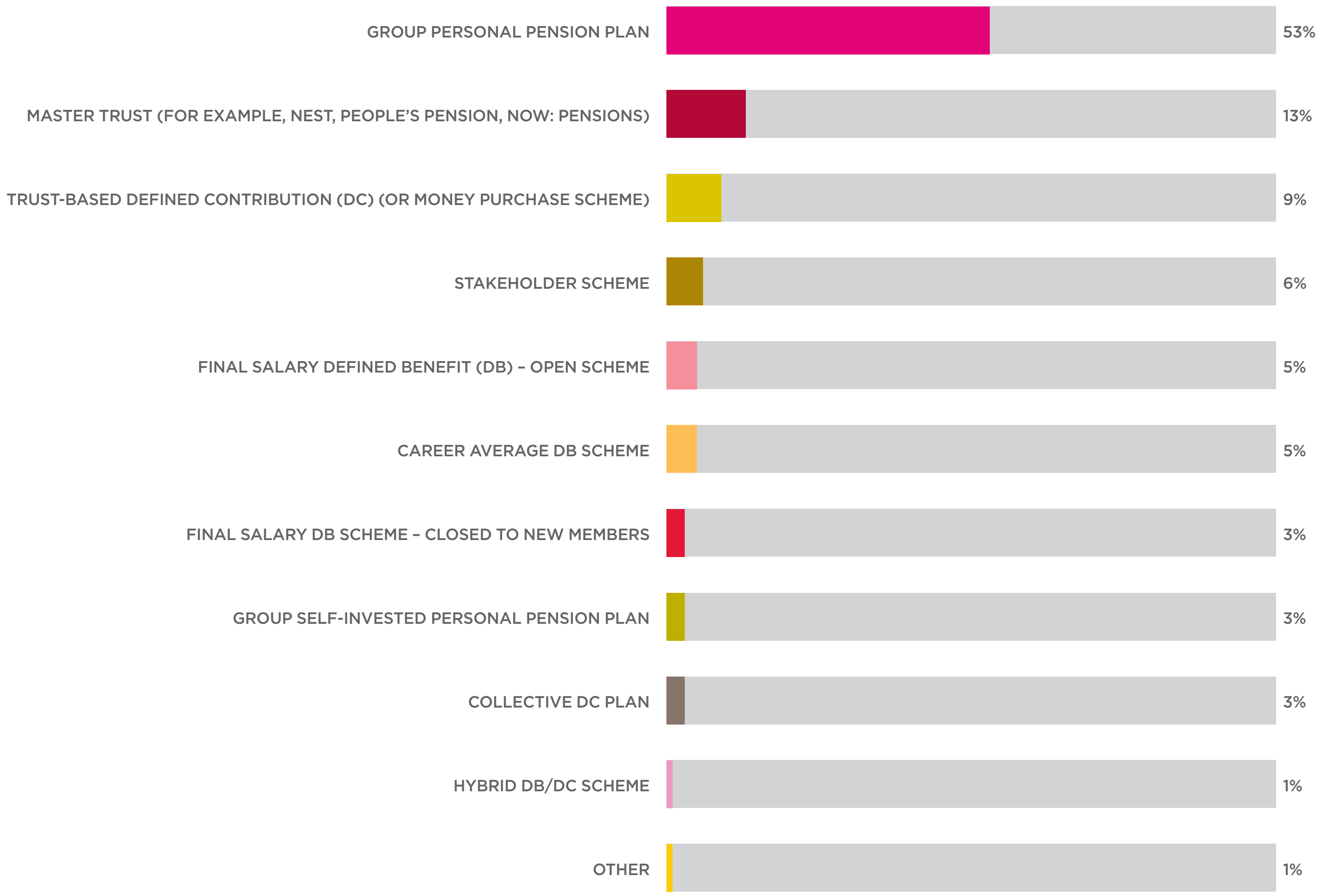
Sample: All respondents (135)

Scheme type

The majority of employers are contributing above minimum levels

Tynan Barton | features editor
Employee Benefits

Types of pension scheme offered as a primary plan by respondents



Sample: All respondents (127)

The most common primary pension scheme offered by respondents this year is a group personal pension (GPP) plan, cited by more than half (53%) of respondents. This type of scheme has retained the top spot since 2005, and the large gap between this and the second most popular option clearly demonstrates its stalwart popularity.

Trust-based defined contribution (DC) schemes and master trusts, such as the National Employment Savings Trust (Nest), are the next most common primary schemes, used by 9% and 13% of respondents, respectively.

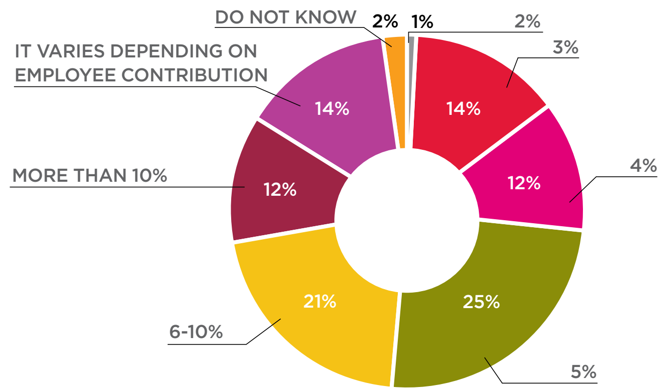
In previous years, trust-based DC arrangements have tended to be the more common of these two options; this shift could be due in part to the large number of employees that have been auto-enrolled into a master trust by their employer. As at 5 November 2019, all master trusts had achieved authorisation.

This year's survey shows that the majority of respondents are contributing higher rates into their employees' pensions than the minimum amounts required under auto-enrolment.

Legislation calls for employers to contribute at least 3% of an individual's qualifying earnings, with a 5% input from the employee; however, 25% of respondents' organisations contribute 5%, 21% provide between 6% and 10%, and 12% make a contribution of more than 10% of an employee's salary each month.

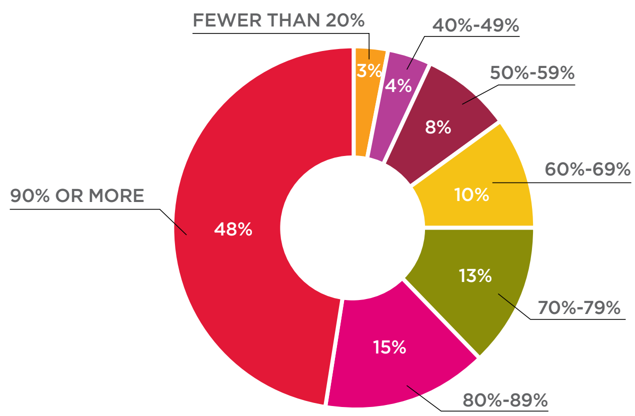
Promisingly, 48% of respondents have 90% or more employees enrolled in their primary pension scheme, a figure which has fluctuated very little since auto-enrolment was introduced.

Respondents' pension contribution rates for the majority of staff



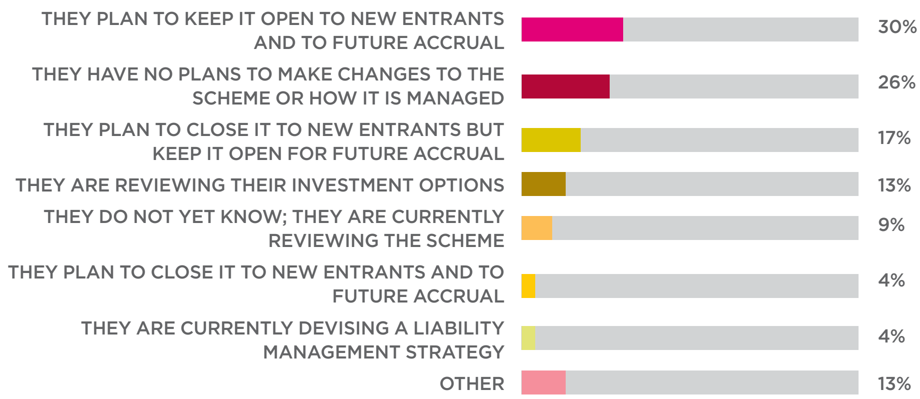
Sample: All respondents (118)

Percentage of respondents' employees that are active members of the primary pension scheme



Sample: All respondents (118)

Respondents' plans for their defined benefit pension scheme



Sample: Those respondents that offer a DB scheme as their secondary pension (23)

Almost three-fifths (57%) of respondents do not offer a secondary pension scheme. However, of those that do, the most common is a final salary defined benefit (DB) scheme which is closed to new members (11%).

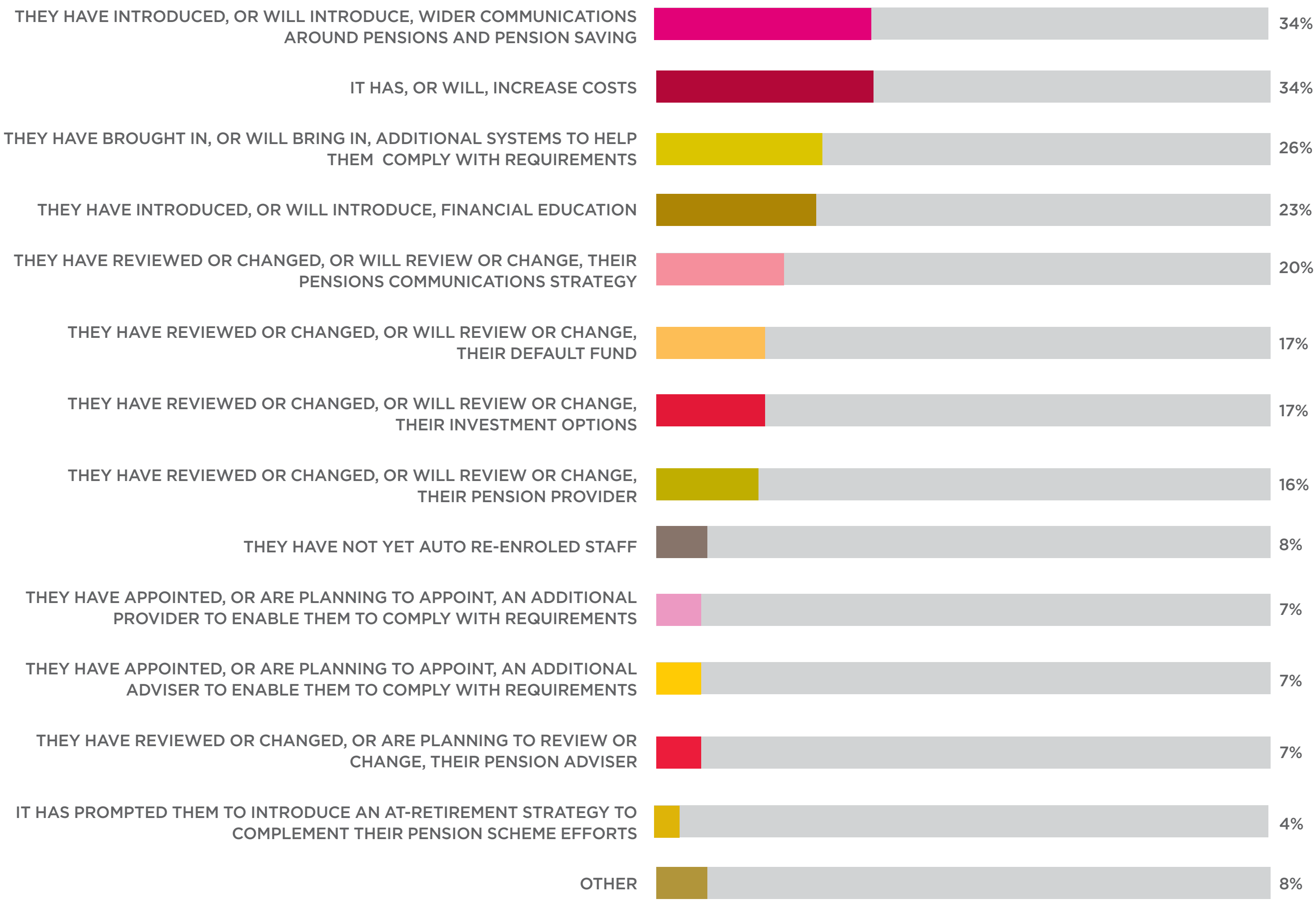
Among the proportion of respondents that offer a DB scheme as a secondary pension, 30% plan to keep it open to new entrants and to future accrual, while a quarter (26%) have no plans to make any changes to the scheme or how it is managed. A further 17% plan to close it to new entrants but keep it open to future accrual, while 13% are reviewing their investment options eb

Government reforms

Pension freedoms drive engagement with retirement savings

Tynan Barton | features editor
Employee Benefits

How pensions auto re-enrolment is impacting respondents' organisations



Sample: All respondents (104)

Under auto-enrolment legislation, employers are required to re-enrol employees into a pension scheme every three years. Many employers have used this as a lever to expand their communications strategy. For example, 34% of respondents have introduced, or plan to introduce, wider communications around pensions and retirement saving, while 23% said the same for financial education.

The cost of automatic re-enrolment is still a major concern for employers. Along with the introduction of wider communications plans, this has taken the top spot in this list consistently since 2016, when the question was first asked.

However, while one-third (34%) still see increased costs as a primary impact, this is a considerable reduction from the 50% that said the same in 2018. As in 2018, other popular options are to bring in additional systems to help them comply with requirements, as cited by 26% of respondents, while 20% said they have reviewed, or plan to review, their pensions communications strategy.

The pension freedoms, introduced in April 2015, gave many employees increased choice around how and when to access their pension. However, with more choice and flexibility has come a greater need for guidance around retirement savings.

This year, 26% of respondents have found that more employees want guidance around decisions at the point of retirement, while a further 26% have seen more staff look for guidance around pension savings in general.

In 2016, one year after the reforms were introduced, this picture was much more stark, when 47% of organisations found that employees wanted more guidance at retirement, and 36% were looking for more help regarding pension savings. The overall drops since then may reflect increased understanding and security over time, with help from measures put in place by employers.

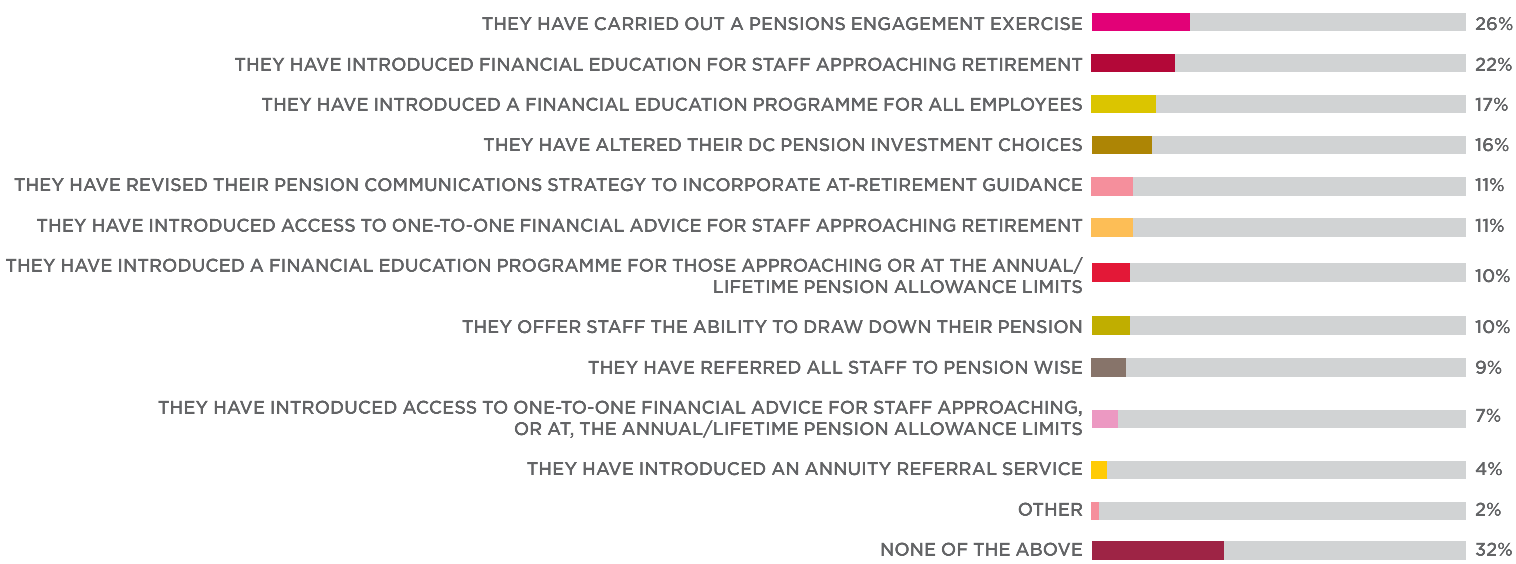
While increased reliance on support systems may have been the price to pay, pension freedoms do continue to have a positive effect, with 26% saying that staff have become more engaged, and 34% noting that employees are now more likely to realise the value of this benefit.

In 2017, employers cited pensions engagement exercises (19%) and the introduction of financial education programmes for all staff (19%) as the top changes being made in response to pension freedoms. This has remained much the same in 2018 and 2019. ›

The top ways pension freedoms are impacting staff and organisations

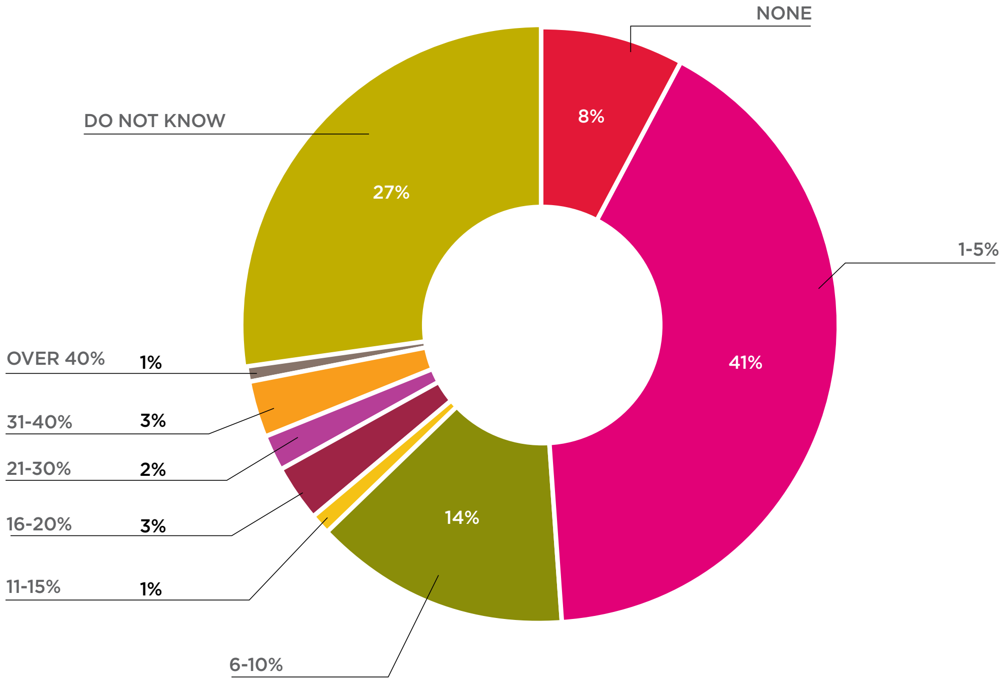
Sample: All respondents (110)

The changes respondents have made in response to the pension freedoms



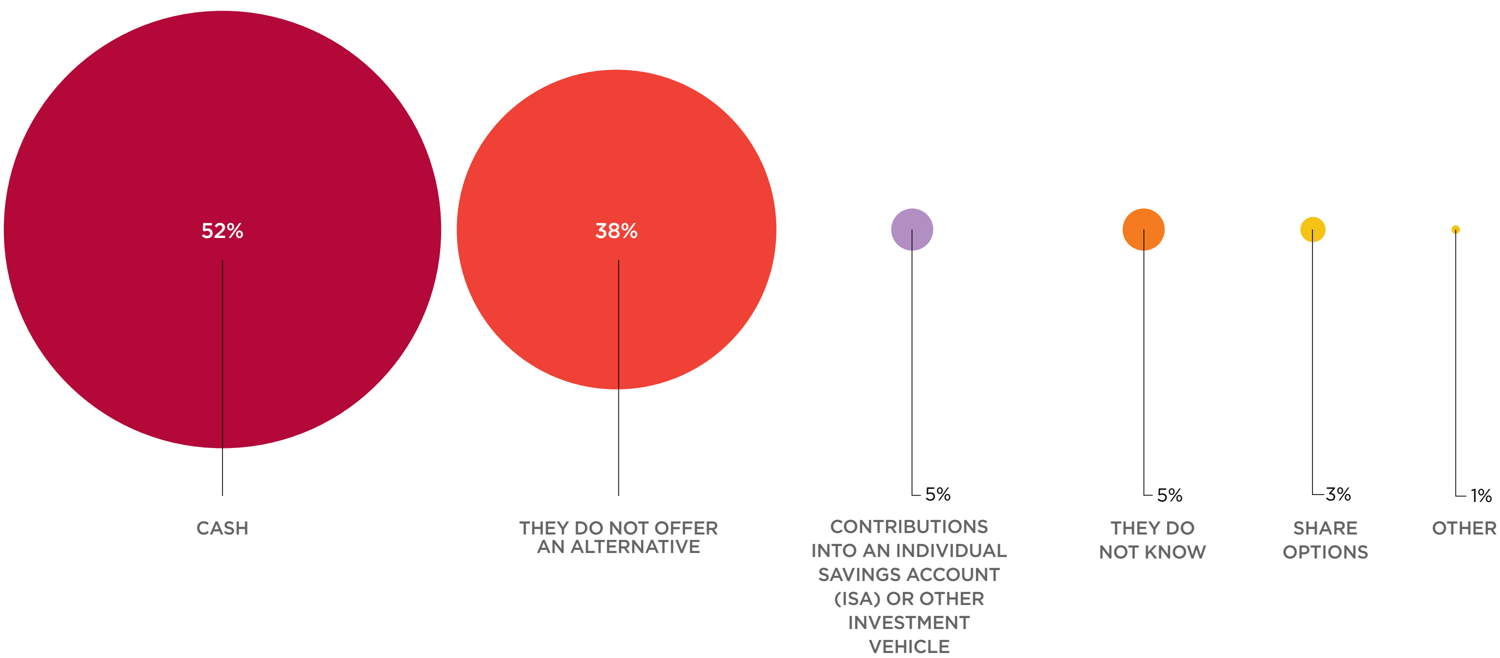
Sample: All respondents (108)

The proportion of staff affected by the lifetime or annual pension tax allowance limits



Sample: All respondents (104)

What respondents offer as an alternative to pension contributions for staff who reach their annual or lifetime allowance limits



Sample: All respondents (103)

The lifetime and annual allowance limits that were introduced in 2016 have led some employers to look at alternative options in place of pension contributions.

Across all respondents, a mean 5% of employees are affected by the allowance limits, with the largest proportion of employers (41%) stating that these affect between 1% and 5%, and a further 14% finding that the limits affect 6% to 10% of their employee population. In 2018, the mean was a similar 4%.

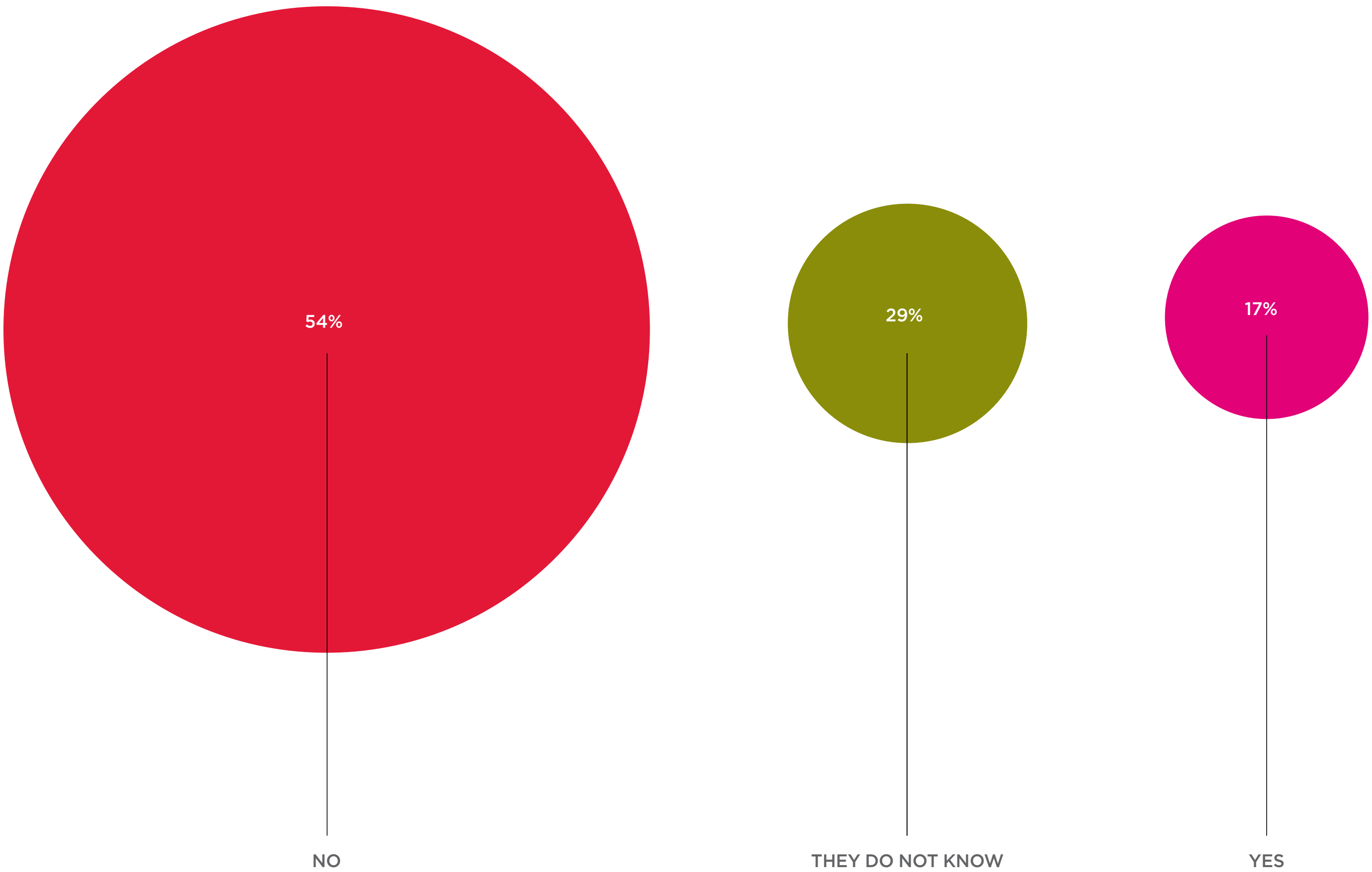
When first asked in 2016, the majority of respondents either offered no alternative (38%) to affected employees, or offered cash (38%). Since then, cash has taken the lead year on year, with 2019 widening the gap by more than ever before, as cash is selected as a solution by 52% eb

Engagement

Few employers are confident that their staff will be comfortable in retirement

Jessica Bird | deputy editor
Employee Benefits

Are respondents confident that the majority of their employees are saving enough to be comfortable in retirement?



Sample: All respondents (117)

In answer to a new question asked of them this year, more than half (54%) of survey respondents do not feel that their organisation's employees are saving enough to be comfortable once they exit work. Add to this the fact that 29% simply do not know if their staff are on the right track, and that only 17% are confident that employees are well prepared, and a concerning picture emerges.

The mean minimum employee contribution for the majority of staff, across all respondents, sits at 4% this year. The largest proportions of employees are paying a minimum of either 5% (31%) or 4% (27%) into their pension each month. Only 7% of respondents, overall, have a minimum employee contribution of upwards of 6% of salary, while the majority sit either at or below the levels set by auto-enrolment.

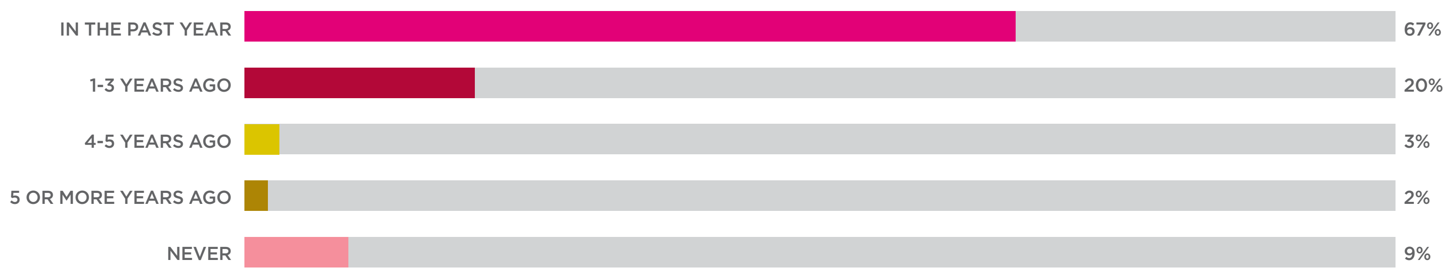
With five generations working alongside one another for the first time since the Industrial Revolution, all with vastly differing needs, expectations and external pressures placed on their finances, getting employees to engage with retirement, which for many is a far-off concept, is a continued concern for employers. ›

Employers are responding to this challenge of ensuring staff are saving enough for a comfortable retirement by continuing to open up communications channels around pensions. Since 2017, the proportion of survey respondents that have undertaken a pensions communication exercise in the past year has increased from 58% to 67%; however, this figure tends to fluctuate year-on-year, having stood at 75% and 73% in 2018 and 2016, respectively.

Nevertheless, the proportion of respondents that have never reached out to employees with information about retirement savings, or have not done so for upwards of four years, has remained reassuringly low over the years. Overall, this figure has stayed between 10% and 15% since 2016. Among those that either have not conducted a pensions communications exercise, or have not done so in the past five years, which counts for only 11% of respondents overall, the main barrier is said to be a lack of resources (39%).

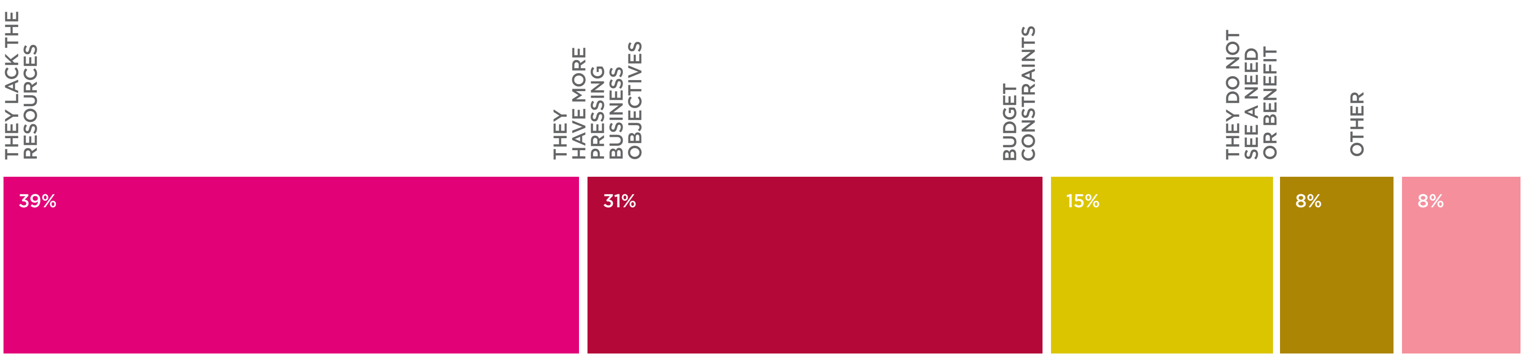
Last year, other business objectives (33%) and failing to see the need for pensions communications (17%) were among the top options in this area; this year's list, which highlights budget constraints (15%) as well as poor resources, suggests that increased financial pressure on organisations is more of a barrier than lack of understanding of the importance or impact of engagement with retirement savings.

When respondents' organisations last undertook a pensions communication exercise



Sample: All respondents (117)

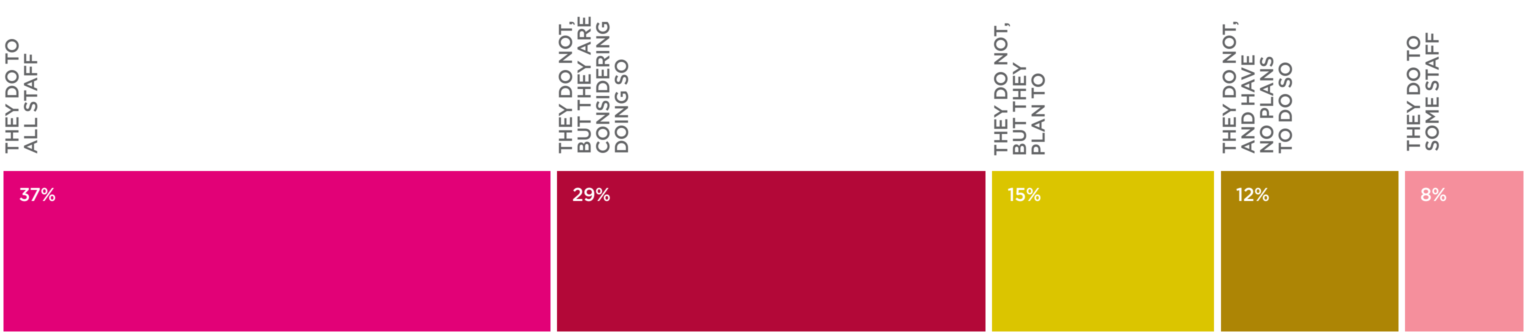
The main barrier to organisations conducting a pensions communication exercise



Sample: Respondents that have not conducted a pensions exercise for five or more years (13)

The proportion of organisations that provide financial education for all employees has changed little since the research was conducted in 2018, going from 36% to 37% this year. Except for a dip to 28% in 2016, this response has maintained a steady overall rise over the past four years. Promisingly, the second and third top answers are that organisations are considering (29%) or indeed actively planning (15%) a financial education strategy, rather than stating that they have no plans to introduce a programme (12%).

Do respondents' organisations provide financial education?



Sample: All respondents (104)

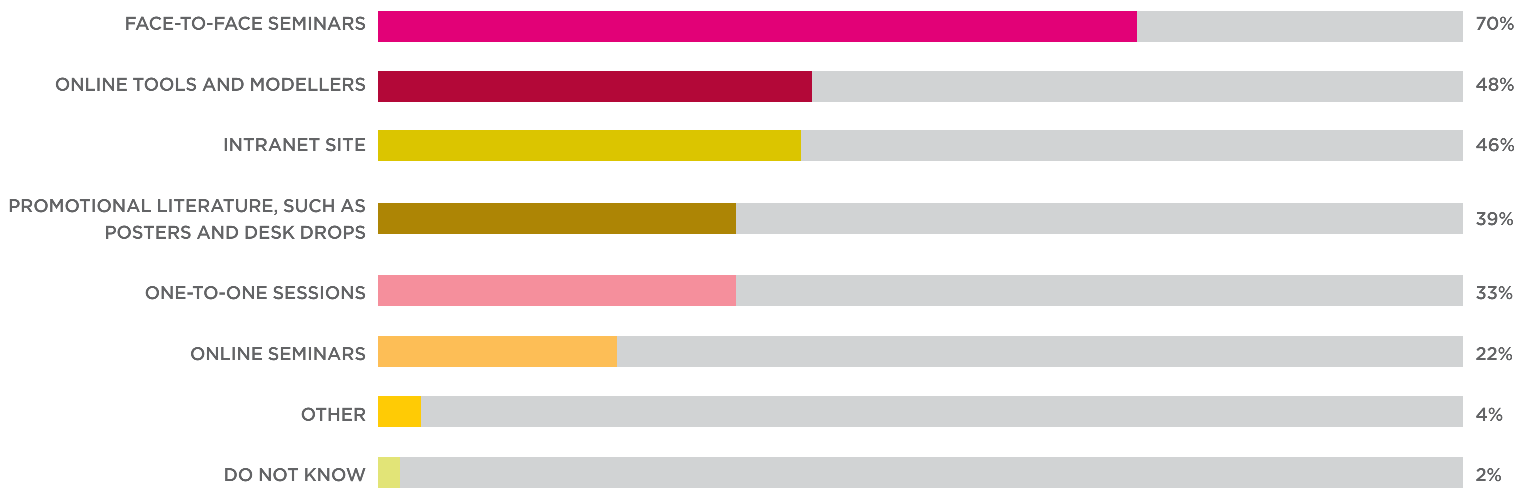
Among the 45% of respondents that currently offer a financial education programme to either some or all staff, the most popular method of doing so continues to be via face-to-face seminars (70%). Despite the ever-increasing speed of technological advancements that allow employees to receive information remotely and digitally, this is an increase of eight percentage points since last year, and a considerable improvement on the 51% that provided education in person in 2015.

Taking second spot this year is the use of online tools and modellers (48%), which perhaps reflects the advancements making these options increasingly helpful and effective, having increased from 43% in the past year, and from 41% in 2016.

Providing financial education to employees via information pages on an organisation's intranet, however, has dropped by more than 10 percentage points, from 57% in 2018 to 46% this year. This may well be another sign that interactive online resources are advancing to become a more viable resource than purely static web pages.

Employers should consider the use of face-to-face communications and education, arguably more likely to actively engage and reach staff, alongside those online modellers and tools that can provide an employee with a tailored, personal experience that can be accessed at any time, so as to create an effective engagement boost.

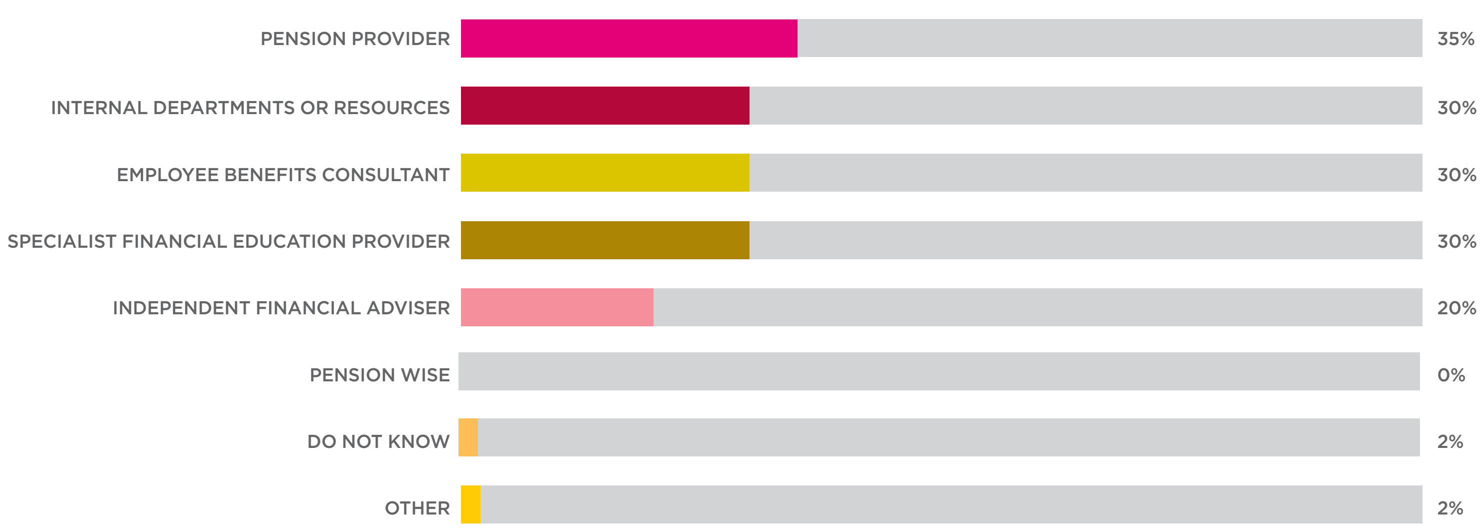
The tools respondents use to deliver financial education



Sample: Respondents who offer financial education to some or all staff (46)

In 2018, the largest proportion of respondents (35%) dealt with financial education internally, closely followed by using their pension provider (33%). Although the two have swapped places as first and second on the list, pensions provider (35%) and in-house resources (30%) are still the most popular options. This shows quite substantial change in the longer term, as in 2015, only 19% of respondents relied on an external pension provider to implement a financial education scheme. The same can be said for delivering financial education internally, which, in 2015, was only selected by 17% of respondents, and since rocketing to 37% in 2016 has remained steadily popular

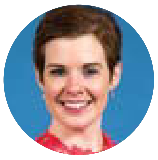
The providers of respondents' financial education strategies



Sample: Respondents who offer financial education to some or all staff (46)

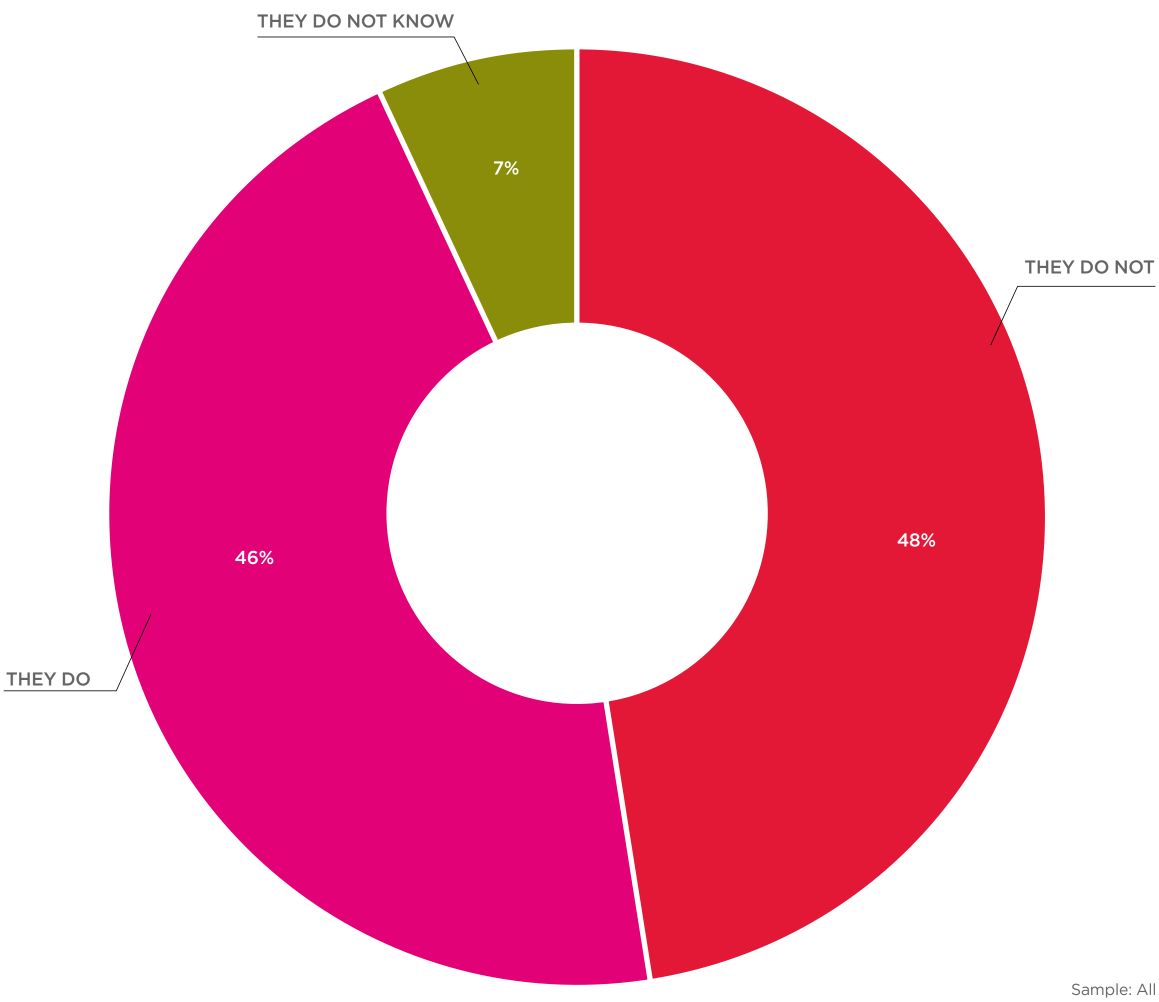
At-retirement support

Informed decision-making is the key driver behind supporting employees about to retire



Katie Scott I reporter
Employee Benefits

The proportion of respondents that offer at-retirement support



Sample: All respondents (103)

The value of providing at-retirement support is becoming gradually more apparent to employers, with 46% of HR decision-makers stating that their organisation helps staff with this life stage in 2019, compared to 39% of employers in 2018 and 40% in 2017.

This increasing interest in at-retirement support may well mirror overall workforce demographic trends, as employers face the realities of an ageing employee base. Across all respondents, the mean average proportion of employees retiring in the next one (5%), five (8%) or 10 years (11%) has increased across the board, from 2%, 6% and 10% respectively in 2018.

More than half (52%) of employers in 2019 say that between 1% and 5% of their staff will be at or near retirement within the next 12 months; a further 35% state that between 1% and 5% of their workforce will be reaching retirement within five years, while 26% say that 6% to 10% of their employees will be at or nearing retirement within the next decade.

Of those employers that do offer at-retirement support, assisting staff in making informed decisions remains the key driver, as cited by 68% of employers. This has been a top factor since as far back as 2014, when it was cited by 53% of respondents.

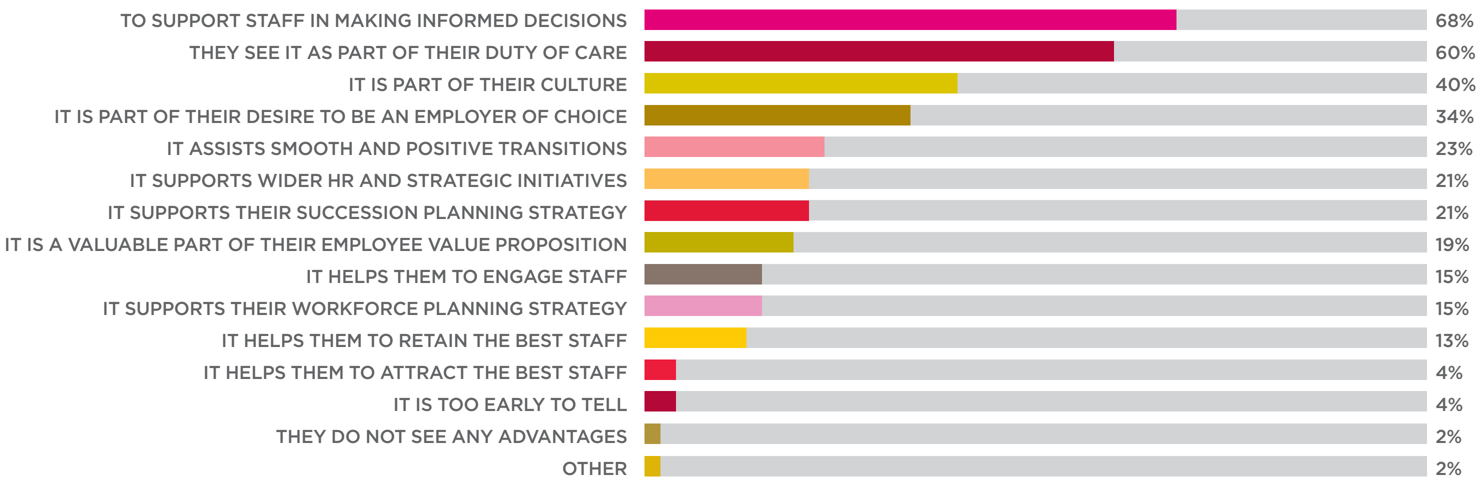
Many employers view providing at-retirement support as integral to their wider ambitions around organisational culture, engagement and the employee experience. For example, 60% think that offering at-retirement support forms part of their duty of care, 40% feel it aligns with their workplace culture and 34% believe it contributes to their reputation as an employer of choice.

Comparatively, fewer employers are using at-retirement support to aid workforce planning, with this option falling from 25% to 15% in the past year alone, settling back to similar levels to those seen in 2014 (17%) and 2016 (14%).

Equally, at-retirement support is less likely to be implemented due to a wish to facilitate smooth transitions out of the workplace, with the research demonstrating a drop in this motivation between 2018 and 2019, from 44% to 23%.

Among the proportion of businesses that do not provide at-retirement support, 39% state that this is due to a lack of resources, while a similar amount (37%) feel that at-retirement support is the responsibility of their pension provider, compared to 29% that said this last year.

Respondents' attitudes to supporting staff at retirement



Sample: Respondents that provide at-retirement support to staff (47)

Despite the increased sense that it is a pension provider's responsibility, the primary source of at-retirement support continues to be HR, benefits, reward, and learning and development teams (34%), and in-house pensions teams (13%).

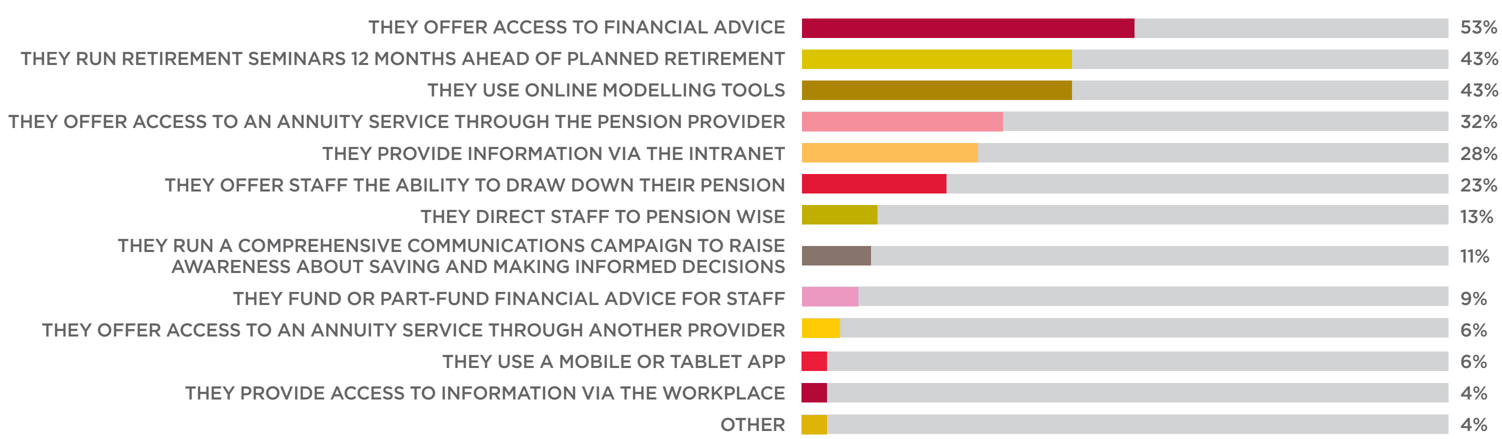
Many organisations, however, do look to external bodies, with 17% turning to their pension provider, 15% relying on independent financial advisers, 13% enlisting their benefits consultant and 4% using a specialist provider.

For more than half (53%) of employers, at-retirement support takes the form of access to financial advice; this was also one of the most popular support methods in 2018 (56%) and 2017 (61%).

Around two-fifths (43%), on the other hand, provide online modellers, although this is a 14 percentage point drop since 2018, while there has also been 10-point decline between 2018 and 2019 in the use of intranets to provide at-retirement information.

Although the proportion of employers offering support to staff reaching retirement age has gradually risen over the years, a considerable number of methods have decreased in popularity year on year. For example, offering staff the option to draw down their pension has dropped by 11 percentage points, to 23%, while running comprehensive communications campaigns has fallen by 16 percentage points since 2018 eb

How respondents support staff approaching retirement



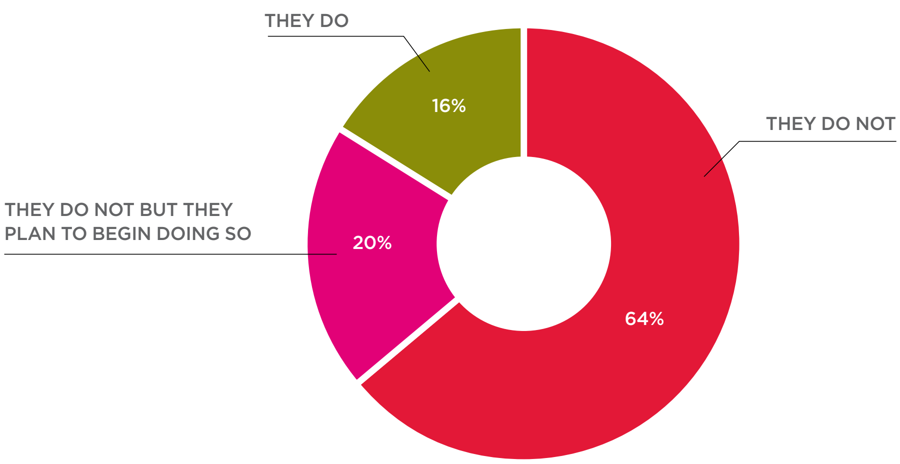
Sample: Respondents that provide at-retirement support to staff (47)

The future

Few employers are taking efforts to understand and address the gender pensions gap

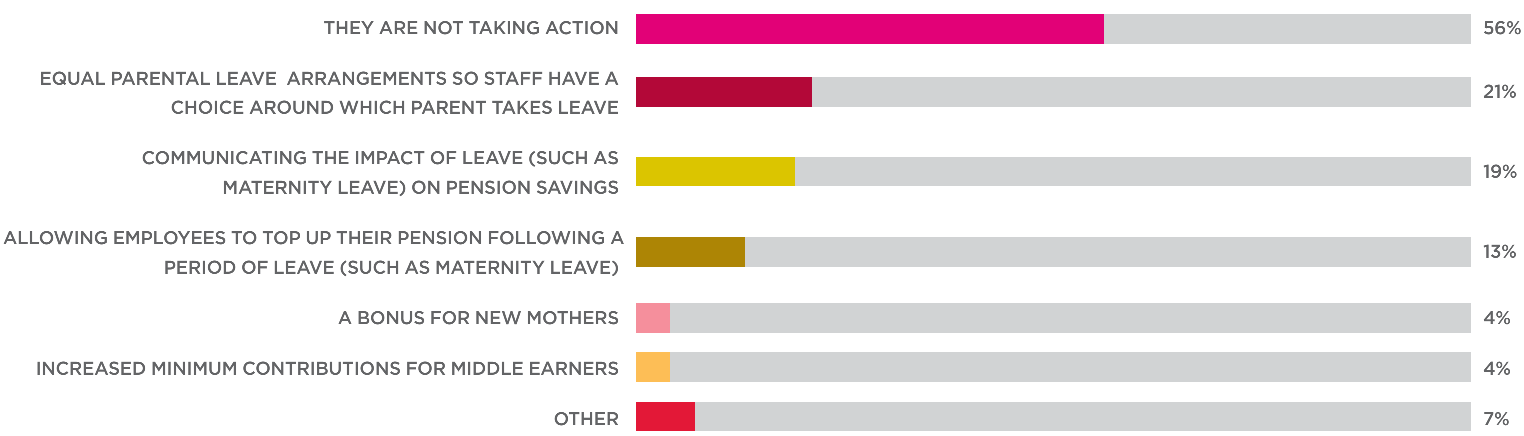
Debbie Lovewell-Tuck | editor
Employee Benefits

Do respondents measure the gender pensions gap in their organisation?



Sample: All respondents (116)

The measures respondents have, or are planning to, put in place to tackle the gender pensions gap



Sample: All respondents (109)

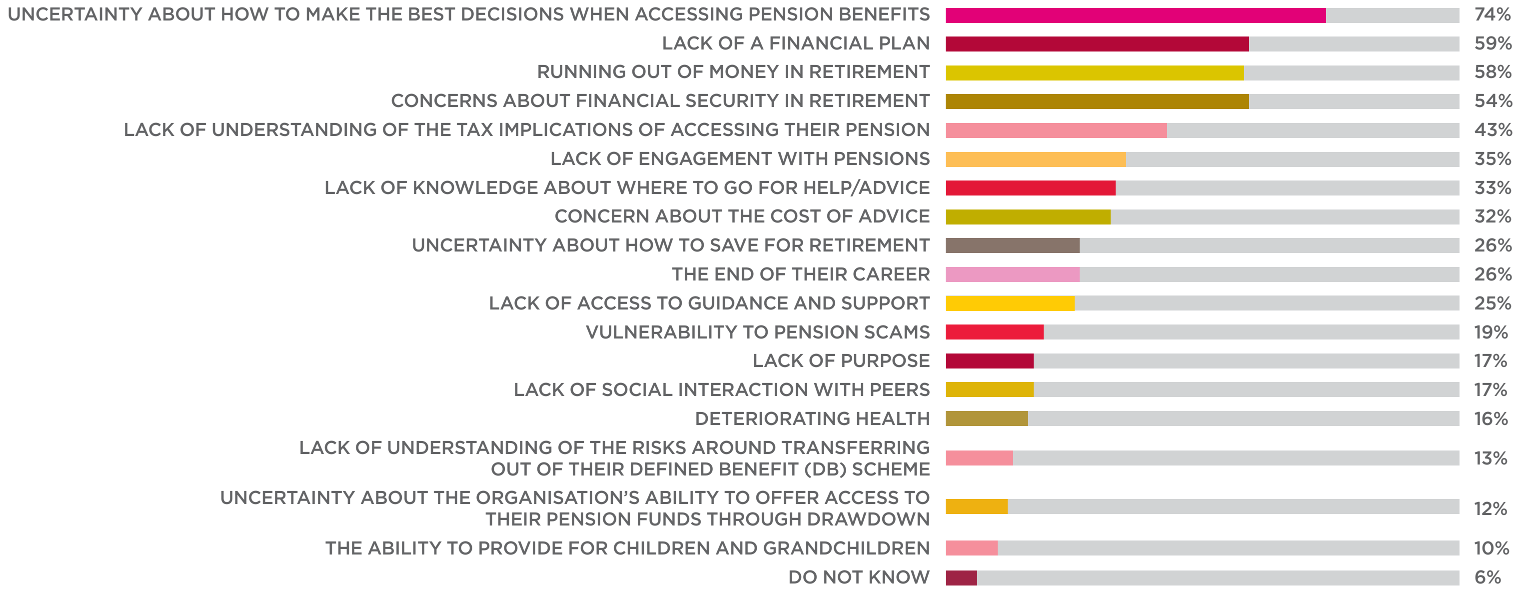
Although employers are increasingly focused on closing the widely discussed and publicised gender pay gap, just 16% of respondents proactively measure the gender pensions gap in their organisation. While it is encouraging that some organisations are doing so, there is still a long way to go before pensions inequality can be overcome.

The gender pensions gap is a result of myriad factors: inequal access to pensions, the impact of the pay gap and pay inequality, and the fact women have historically taken more time out of the workforce to care for children or other family members, to name a few.

While a fifth (20%) of respondents report that they plan to begin measuring their organisation's gender pensions gap, this still leaves a significant majority (64%) that have no plans to boost their understanding of the extent of the issue. A further 56% state that they have taken no action to reduce the gap.

Where respondents have implemented initiatives to tackle the gender pensions gap, the most common methods are providing equal parental leave arrangements (21%) and communicating the impact of certain policies, such as maternity leave, on pension savings (19%).

The concerns affecting respondents' workforces leading up to or during retirement



Sample: All respondents (100)

For the second consecutive year, uncertainty about how to make the best decisions when accessing pension benefits tops the list of concerns affecting the workforce in the run up to, or during, retirement. This year, 74% said this is the case, up from 54% in 2018.

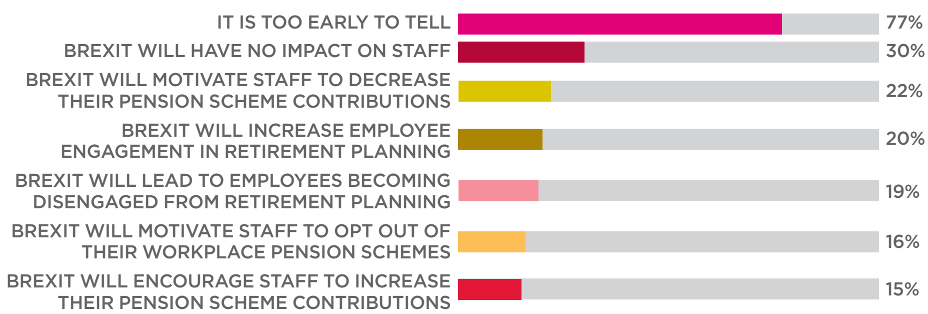
Although the proportion of respondents that have cited this as a concern has fluctuated over the years, such uncertainty has been a key issue since 2014, when it was cited by 60% of those surveyed. This year, just under three-fifths (59%) of respondents say that the lack of a financial plan is troubling their employees; this is a rise on the 34% and 36% that said the same in 2018 and 2017, respectively. Current political and economic uncertainty may well have prompted staff to look more closely at their long-term financial health, and realise the danger of a lack of future plans. Concerns about financial security and running out of money in retirement have remained consistently high.

At the time this survey was carried out, the UK was still several months away from the projected date for leaving the European Union (EU), 31 October 2019. The level of uncertainty that has surrounded the move in the years and months leading up to the event means it is unsurprising that 77% of respondents say it is too early to tell how Brexit will impact pensions. This is a slight decrease on the 85% that said the same last year, but remains significantly higher than the 39% that said the same in 2017.

It is interesting to compare how respondents' views have changed from those given shortly after the referendum. At that time, 43% thought Brexit would increase employee engagement in pension planning, 26% that it would encourage staff to increase their contributions, 26% that it would cause staff to opt out of their workplace pension scheme, 21% that it would lead to employees becoming disengaged from retirement planning, and another 21% that it would motivate staff to decrease their pension scheme contributions.

With few survey respondents feeling confident enough to suggest concrete impact as the date has drawn nearer, it will be interesting to see how events play out over the coming year.

How respondents believe Brexit will impact pensions

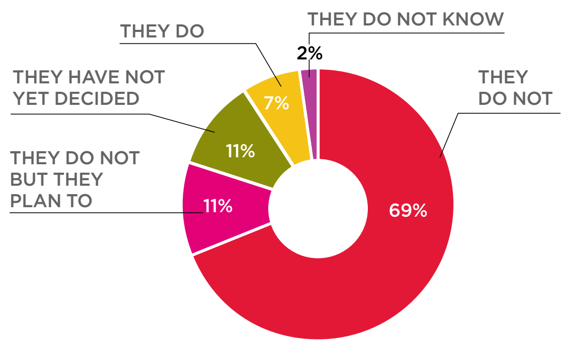


Sample: All respondents

Just 7% of respondents offer a workplace lifetime individual savings account (Lisa). This is in line with the 7% that said they planned to do so when first asked in 2016, prior to its introduction.

The Lisa allows those aged 18-40 to save up to £4,000 a year until the age of 50. Although not specifically designed solely as a tool to save for retirement, the government will contribute a 25% bonus when the savings are used as a deposit for a first home, or for retirement if withdrawn once they are over 60. Although a further 11% have this year voiced plans to introduce the Lisa, the low take-up overall suggests employers typically favour more traditional savings vehicles eb

Do respondents offer a workplace lifetime individual savings account (Lisa)?



Sample: All respondents (100)

Enhanced engagement

How can a pension scheme be positioned within an employee value proposition?

Alison Coleman | freelance journalist

NEED TO KNOW

- **Pension scheme positioning does not just enhance the employee value proposition (EVP) at the point of recruitment, but should be a factor in the entire employment life cycle.**
- **For a pension scheme to attract and retain talent, its contributions need to be more generous than the minimum set by the government.**
- **Wider savings and benefits are becoming increasingly important as employers look to improve their overall financial wellbeing packages, including pensions, and offer greater flexibility.**

When introduced in 2012, pensions auto-enrolment opened the door to retirement savings for millions of workers who would not have previously considered this option until it was too late.

Now, with employees ranking their workplace pension scheme as the most important benefit when accepting a new job, according to a survey by Portafina in January 2019, this could be a key differentiator in talent acquisition and retention strategies, depending on how it is positioned in the employee value proposition (EVP).

Andrew Partridge, senior communications consultant at Aon, says: "Focusing on pensions as part of the EVP can help employers improve the experience for workers throughout their employment and beyond. Many employers focus on attracting and recruiting the best talent, and having attractive pensions can help here. Flyers to promote pensions, and videos shown at inductions, can be powerful, especially as joining is a key time for members to make decisions."

POSITIONING PENSIONS

Pension scheme positioning does not just enhance an organisation's EVP at the point of recruitment; ensuring that engagement efforts are ongoing can be a key element in retaining employees over time.

Rachel Meadows, head of pensions and savings at Broadstone, says: "Employers increasingly recognise that, having gone to significant efforts to attract talent in the first place, and then often investing years of training and development, the last thing they want to do is start losing staff once they hit peak value and usefulness to the business and wider team."

For staff ascending the career ladder, becoming senior and highly paid, creative and flexible approaches to pension saving are essential, because these individuals are more and more likely to be caught by restrictions, such as tapered annual allowances.

"While this issue has received a lot of press due to its impact on the NHS and doctors, we are increasingly diagnosing this as an issue in the private sector," Meadows explains. ›

Case study | University of Lincoln

The University of Lincoln uses targeted communications and education to position pensions throughout the employee journey

With about 2,000 employees enrolled across six pension schemes, the University of Lincoln faces a considerable challenge when it comes to reaching its entire workforce, let alone effectively engaging staff with pensions.

To position retirement savings as a key element of the employee journey and the overall reward package, the university promotes pensions, along with information about the other benefits on offer, from the very start of an employee's recruitment.

However, while this sends a clear message about the importance of retirement savings, the university is understanding of the fact that a new employee will be inundated with information. New recruits are sent a follow-up factsheet six months into their job. This highlights the importance of looking into their pension provision and planning for the future,

and has information on practical questions, such as how to transfer a pension pot.

Natasha McLaren, pension and benefits manager, says: "That's quite a good way to remind people, because they get so much information at the start and they are thinking more about their job, so they find [the factsheet] quite useful."

To build on this introduction, the organisation provides financial education workshops in April and November each year, tailored for employees at the early, middle and late stages of their careers. These workshops cover a range of topics, including salary sacrifice arrangements, additional voluntary contributions, and how tax relief works.

These also position pensions alongside information on other benefits and issues, such as looking at credit scores and budgeting, and how career progression might affect an employee's financial situation. For example, if an employee is awarded a pay increase, they might consider putting the extra money into a pension or an individual saving account (Isa).

This financial education programme is an important part of positioning pensions within the range of benefits available to employees throughout their time with the organisation, says McLaren. "It's talking about the bigger picture, rather than specifically about pensions," she concludes.

"Helping valued staff negotiate various tax thresholds and efficiencies to their advantage can pay huge dividends in employee loyalty, and leave them more money in their pocket for the same cost to the business."

The importance of pensions within an EVP also extends to employees who eventually leave, because it helps to ensure that they continue to speak highly of their former employer. "Pensions naturally are a good fit here, because they stay with members beyond leaving [the employer] and can help engender continuing goodwill as they talk to friends in the same sector," says Partridge.

COMPETITIVE BENEFITS

Every employer now provides a pension, but if an organisation wants to ensure its scheme is a benefit that will proactively help it to attract and retain talent, it must find ways to differentiate its offering from its competitors'.

First, it needs to be more generous than the minimum set by the government, says Mark Pemberthy, head of defined contribution (DC) and wealth at Buck. In addition, pensions should be offered alongside complementary vehicles that cater to diverse needs.

Buck's research, *DC pensions: What is the point?*, published in April 2019, found that 38% of employers now want to implement workplace savings alongside a pension scheme, either for higher earners facing limitations to their pension savings, or for the wider workforce as part of a holistic approach to financial wellbeing.

"New generations of talent may have higher financial priorities than retirement, so progressive employers are providing flexibility in workplace saving by offering individual savings accounts [Isas] and lifetime Isas [Lisas] alongside pension schemes, to have more reward impact and appeal with younger audiences," says Pemberthy.

"We are seeing more employers implement workplace savings solutions alongside their pension scheme as a way of differentiating themselves from competitors."

This approach allows staff to divert some of their pension contributions into Lisas and boost saving for a deposit on their first home, or into an Isa for wider financial objectives.

Donna Walsh, head of customer and workplace proposition management at Standard Life, says: "Some of our employer clients offer a flexible spending pot, where employees can choose to redirect contributions above the auto-enrolment minimum into another savings vehicle, or to repay their student loan."

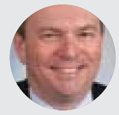
SHOWCASING VALUE

Many employers are already electing to pay above the minimum contribution of 3%, even pledging to match employee contributions.

Jamie Smith-Thompson, managing director at Portafina, says: "Employers could choose to make their pension offering more attractive by agreeing to base their contributions on an employee's full salary, rather than their qualifying earnings. They will have more in their pension pot when they come to retire, which, ultimately, could make a significant difference to their standard of living."

Those organisations that do enhance their contributions cannot assume that this will instantly have a positive impact on engagement. Employers must work to ensure that this investment on their part is used to its full effect, and that employees understand the value

Viewpoint



Tim Middleton is director of policy and external affairs at the Pensions Management Institute (PMI)

Decades ago, a pension scheme would have played a vital role in helping employers recruit and retain talented individuals.

Today, however, things are significantly different. For one, employers are far less likely to want to recruit employees who will stay with them to retirement. Moreover, as it is now a statutory requirement for employers to provide a workplace pensions arrangement, it is hard to make this a significant recruitment differentiator.

So, do pensions still have a role to play in helping attract talented employees?

In an increasingly transient labour market, portability is a significant benefit. Defined contribution (DC) pension schemes, which do not tie employees to their job over the long-term, now represent an attractive alternative to defined benefit (DB) provisions for those who are unlikely to stay in a post for longer than a couple of years.

While automatic-enrolment has introduced statutory minimum contribution rates, an employer prepared to contribute in excess of these will clearly have a more attractive proposition than one that does not. Additionally, the use of salary sacrifice, which reduces the national insurance bill for both employer and employee, should be considered.

Finally, employers should consider how well integrated the pensions provision is within a broader remuneration package. While a pension on its own might not necessarily be attractive to potential employees, positioned as part of a well-designed, flexible benefits package, it might play a critical role in helping ambitious employers target the best talent the labour market has to offer.

For example, employers are increasingly recognising the value of providing access to independent advice about retirement planning, which allows employees to make life-changing decisions with confidence.

Helping today's employees to prepare for retirement involves far more than simply providing a pension scheme; the more shrewd of the nation's employers will recognise this.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Pensions investment

How can employers ensure their default strategy is fit for purpose?

Ceri Jones |
freelance journalist

NEED TO KNOW

- **Trust-based pension funds are obliged to re-examine their default funds at least every three years.**
- **Default funds are typically mixed-asset funds, because they must suit all of the three options members can take at retirement: annuity purchase, cash and income drawdown.**
- **If the scheme's default fund is deemed no longer appropriate, it can be a major task to move employees on to a new default, requiring consent from individual members.**

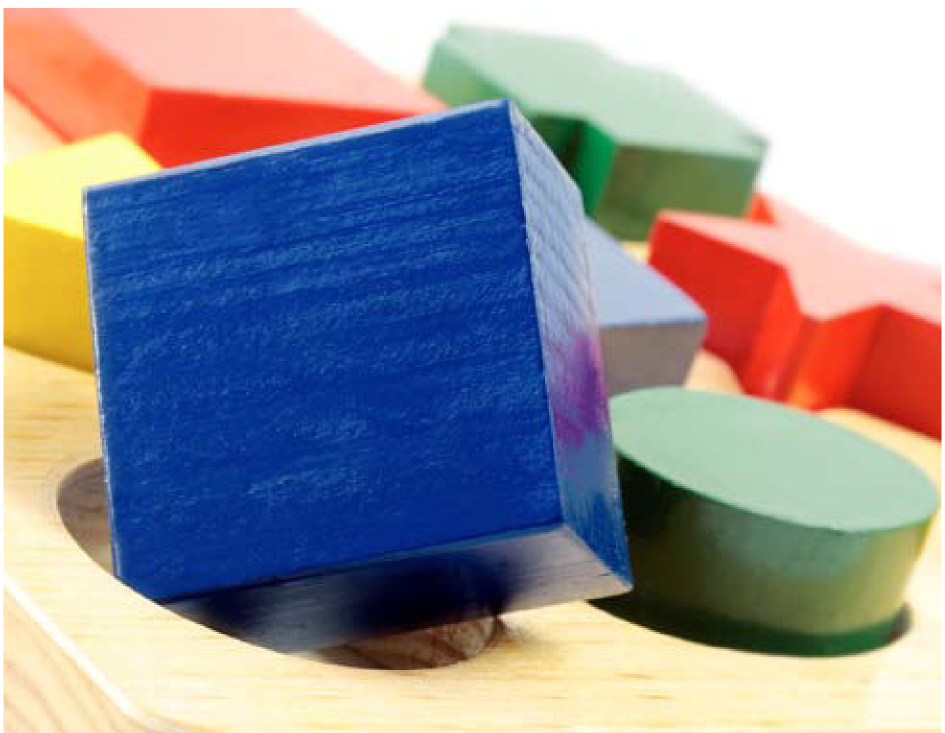
In mid-2019, The Pensions Regulator (TPR) carried out spot checks on at least 500 trust-based defined contribution (DC) schemes. Its aim was to ensure that trustees were fulfilling their legal obligation to review their default fund strategy and performance at least every three years, and more frequently if there is any significant change in the member profile or the investment backdrop.

Before the Pension Schemes Act 2015, default funds were structured with the assumption that employees would buy an annuity on retirement. Many were lifestyle funds that progressively shifted from a high component in equities at younger ages to more in bonds and cash in the approach to retirement.

Once compulsory annuitisation was swept away, the default fund investment strategy had to be suitable for whatever employees decided to do, whether they take cash, go into drawdown or still prefer to buy an annuity.

However, a lifestyle fund is not suitable for members who want to go into income drawdown, because the progressive switching into bonds in the lead up to retirement limits the pot's growth just at the time it is at its biggest.

For the most part, pension schemes have instead adopted default funds based on a portfolio of mixed assets, equities and bonds, and perhaps illiquid assets such as infrastructure, which provide growth but also an element of protection as they are diversified across different asset classes.



DEFAULT STRATEGY REVIEW

According to TPR, trustees should understand the needs of their members before reviewing the default strategy. They need to focus on when employees expect to take their pension, and how they expect to do that, such as taking cash or receiving an income.

Advisers usually say the default fund should be tailored to the scheme's membership. If the trustees do not already have sufficient information, they can ask employees for their views through interviews or an online survey. If it is not possible to get enough data from employees, they should ask their advisers about their experience of similar schemes.

Ann Swift, senior director, DC investment at Willis Towers Watson, says: "A review can simply look at whether the default matches the member demographics with reference to age, salary and the average value achieved at retirement. It doesn't have to be a massively expensive and time-consuming exercise. For example, how engaged are members? Are they making higher contributions than the minimum? A high contribution level at younger ages can indicate a greater risk appetite."

However, discussions about tailoring funds to the scheme's membership might be misleading, says Nathan Long, senior pension analyst at Hargreaves Lansdown.

"The central issue is: how risky do you make these funds?" he says. "The higher the risk, the better for the employee usually, but the employer does not want staff to be unnerved in times when pension values fall, and dealing with worried members could create a lot of extra work."

After conducting a review, the trustees must revise the pension scheme's statement of investment principles (Sip), unless no action has been taken. ›

If the default fund must be replaced, employees cannot be switched wholesale to the new arrangement: explicit consent is required. This requires a communications exercise, using a variety of mediums suitable for different cohorts.

REGULAR REVIEWS

For contract-based DC schemes, where investment funds are offered by providers on an off-the-shelf basis, the design of the default fund has typically been a secondary consideration to administration and pricing. However, it is important to regularly review the scheme's performance and its value for money for employees, including charges.

Sponsors can talk to the Investment Governance Committees (IGCs) that provide independent oversight, and can exert pressure for a change if the fund's strategy or performance falls short.

Kirsty Ross, senior investment proposition manager at Royal London, says: "One of the biggest attractions of a default investment solution is that it is ultimately the provider [that] takes responsibility, from a regulatory point of view, for ensuring ongoing suitability. This means that it should be easy for employers and their advisers to access the information needed to make themselves comfortable that the default solution is suitable."

Punter Southall Aspire publishes an annual report on default funds, which shows huge variation in their construction and performance. According to its chief executive Steve Butler, providers with an investment arm, such as Standard Life, may be able to offer more progressive investments than others that do not. For example, Scottish Widows' multi-asset default fund is statically invested in 85% equities.

LONG-TERM INVESTMENT

Many default funds were set up in preparation for auto-enrolment in 2013, so how they might hold up in a crash has not been tested.

Entering the next stage of the investment cycle, likely to be characterised by low returns, pension funds are making higher allocations to assets such as infrastructure and private equity, which are a good fit with the long-term horizons of pensions.

Brian Henderson, director of consulting at Mercer, says: "Default funds have typically enjoyed double-digit returns for five years, but it won't be so easy going forward. The industry is looking at infrastructure, property, emerging market debt, private markets, anything to get through a low-growth environment. We are also talking a lot to clients about environmental, social and governance [ESG] and impact-related investments."

Many schemes have been adding an ESG element into the default fund. Since October 2019, Sips must also state policy on ESG issues, and the extent to which members' views have been taken into account regarding investments eb

Case study | Stelrad

Stelrad's default investment strategy helps employees manage retirement expectations

The Stelrad group personal pension (GPP) plan was set up with Standard Life in September 2014, following the sale of a related company, Ideal Boilers. It has 125 members in total, of whom 108 are long-serving, active members and 17 are deferred.

The scheme, which is closed to new members, runs alongside a contract-based scheme used for auto-enrolment purposes, also provided by Standard Life, for more recent employees.

The scheme had its triennial review in 2018; the default funds and alternative options were reviewed, but no changes were necessary. There are three funds on offer during the growth phase: a mid-level risk default fund; a lower-risk option; and a fund that is slightly higher risk with potentially higher growth.

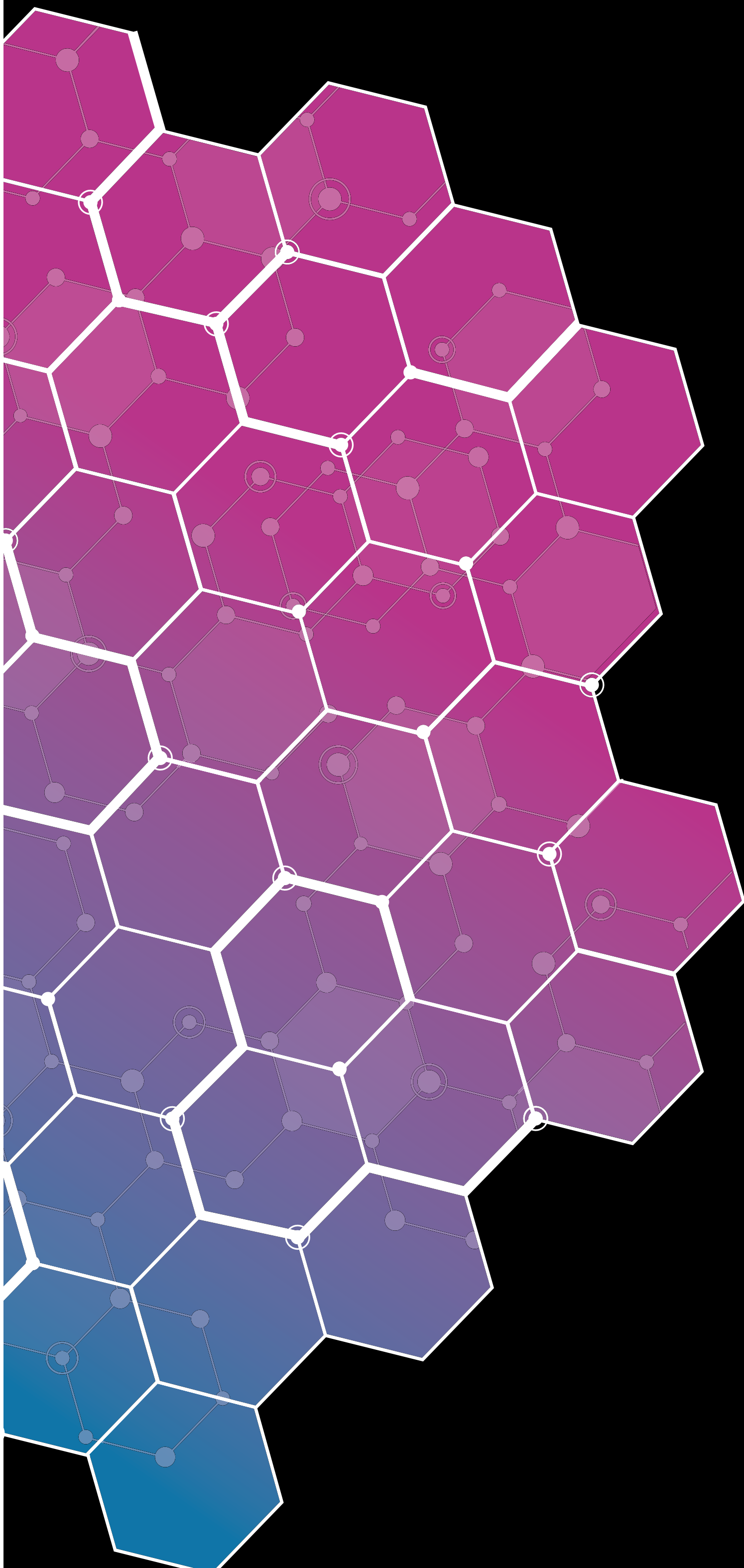
All three are a blend of asset classes, using dynamic asset allocation and other risk management solutions to minimise volatility and create a smoother investment journey while still generating growth. Like most schemes, however, 95% of members are in the default fund.

The trustees also took the decision to shorten the de-risking glide path to seven years out from the member's selected retirement date, where the norm is 10 or more. Due to this change, an individual's fund could be invested for growth for longer at a time when it is at its largest.

Developing a solution for the pension freedoms was a clear priority, says Kevin Woolley, chairman of trustees at Stelrad. "Our experience is that members have used all three options at retirement: taking an annuity; going into drawdown; and taking a series of lump sums. So, we offer funds targeted on these options, plus a flexible option for those who have not made up their minds. The flexible option fund is also the default, and is composed of a blended solution of equities, absolute return funds and inflation-linked gilts, benchmarked to a composite index."

The other funds are targeted at the different pathways at retirement; for example, the annuity option fund switches more heavily into bonds as the member's chosen retirement date nears, while the drawdown fund is a blended, multi-asset fund similar to the flexible option.

To help employees make the best decision, information and communication are key, says Woolley: "We have developed a communication programme with Punter Southall that supplements Standard Life and kicks in at age 55, and we frequently remind members again about their options at certain points, such as three years out."



Retirement equality

Are we wedded to a gender pensions gap?

Tim Pike | head of modelling
Pensions Policy Institute

Women approaching retirement have typically accrued £51,000 in pension wealth, compared to £157,000 for men; this is a gender pensions gap of more than £100,000, according to a report published by the Pensions Policy Institute and Now: Pensions, in July 2019, *Understanding the gender pensions gap*.

This is generally a result of various employment and workplace factors these women will have experienced throughout their lives.

The primary cause is time spent outside the labour market. In the course of their lifetime, most women take time away from employment; generally, this time is used to raise a family or care for others. Men, traditionally, remain in paid work, expected to take the role of providing financial security for a family. While this arguably works as an equitable sharing of responsibility at the time, it also results in the working husband accruing pension savings while his wife does not.

Active membership of defined benefit (DB) pension schemes peaked just over 50 years ago, and has been in decline ever since, but was only overtaken in recent years by defined contribution (DC) pensions arrangements.

So, in the past, pensions arrangements were likely to have been part of a DB scheme; these tend to offer higher benefits not just to the member, but also typically incorporate survivor benefits. This arguably complements the structure in which one partner acts as the breadwinner, and one as primary carer; roles which have traditionally been delineated by gender.

The pension resurgence under automatic-enrolment has pushed membership of DC pensions to new heights. The benefit derived from these schemes is ultimately linked to lifetime earnings, and is less likely to be able to support a couple in retirement.

This leaves the employee at a disadvantage if they take time away from work and, therefore, risks leaving mothers vulnerable at particularly sensitive times, such as if they become widowed in retirement. In addition, should they divorce, pension assets are not considered in seven out of 10 cases.

Recommendations for combating the gender pensions gap tend to be centred on the prevention of it spreading to encompass more women. Workplace approaches include improved access to childcare and facilitating women to quickly return when previously they would have had to take more time off to raise their family. Improved monitoring of gender pay gaps also nudges employers to improve payroll equality, which, ultimately, has an impact on retirement savings.

However, this does not help the large number of women who continue to take significant time away from work while being financially supported by a partner. The option of financial reliance on a partner may suit a household over the period a parent is outside the labour market, but there is a substantial risk that, in the unfortunate circumstance of bereavement or divorce, for example, the opportunity for future financial co-dependence may be lost.

A number of organisations, including Which? and Now: Pensions, have proposed policies of a government top-up to women's DC pension pots while they take time out from the labour market.

These policies would offer either a lump sum as a contribution to a qualifying DC pension scheme, or ongoing payments into such a scheme. Both will improve the pension prospects of women, reducing their financial vulnerability.

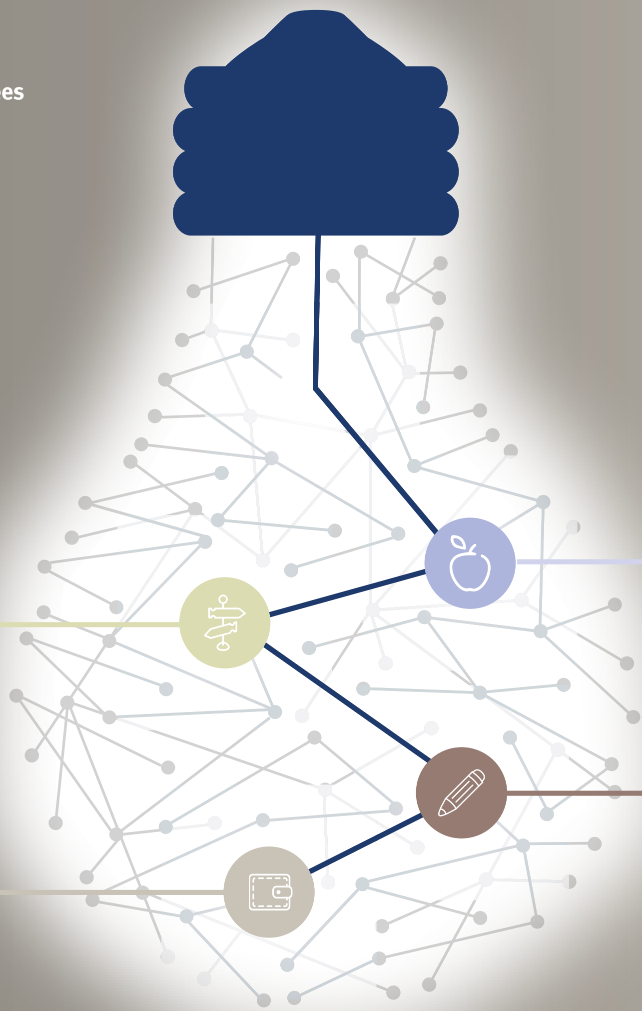
Short of the government implementing a policy approach supporting women's pensions while they are outside the labour market, the pensions gap will remain something to be gradually chipped away at.

With workplace policies enabling women to be in work, and to make greater contributions when they are able, female employees may well be able to reduce the gap, albeit at cost to themselves eb

helping your employees become financially empowered at-retirement.

Freedom and choice in pensions has increased the risks and complexity that employees and pension scheme members face in the lead up to and at-retirement including; falling for a scam, buying inappropriate retirement products, paying more tax than necessary, running out of money, or not understanding the risks around defined benefit pension transfers. This has created a growing need to provide support for employees and pension scheme members at this stage.

Our Retirement Income Options service is available to pension schemes, Trustees and employers and consists of:



Financial guidance

to offer one-to-one support to employees and pension scheme members facing life changing decisions about their pensions and retirement savings.

Support with the implementation of retirement income options

this allows a holistic solution to be implemented and managed throughout retirement.

Financial education

to aid understanding around the various retirement income options available and key issues such as tax efficiency.

Regulated financial advice

to help individuals understand their personal financial situation.

To find out more about how you can help your employees become financially empowered, please contact us on: 0800 234 6880, email us at info@wealthatwork.co.uk or visit www.wealthatwork.co.uk

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