

**Barnett
Waddingham**
a true partnership approach

Employers' attitudes to the changing DC pensions landscape

A REPORT FROM
BARNETT WADDINGHAM
AND STANDARD LIFE

4 MARCH 2016



Workplace Health and Wealth
Bringing clarity to the complex

About our study

We had responses to our study from 76 UK corporates employing **over 800,000 employees**, across a range of industries.

Why have we done this?

Following the introduction of the new pension freedoms, many studies have researched how employees' attitudes have changed in relation to retirement saving. However, no studies (until now) have asked employers how their attitudes have changed. Our study digs a little deeper, as there is concern that whilst more employers are now operating DC pensions because of auto-enrolment, they are actually losing confidence in pensions as being an effective employee benefit. The sense of irony cannot be lost here, as it's been clearly identified that people are not currently saving enough for retirement.

Constant changes to rules, regulations and legislation, and the perpetual pruning of tax incentives to pay into pensions, mean there is a clear risk employers are becoming disenfranchised from the pensions system. Further incentive cuts from this April could also lead to many senior executives reducing contributions or even opting out of their employer's pension scheme. As more senior decision makers become disengaged from the employer's scheme...

→ DOES THIS SPELL TROUBLE FOR THE REST OF THE EMPLOYEES?

Our study

Our study was broken down into four sections:

EXPERIENCES WITH AUTO-ENROLMENT

WHY COMPANIES OFFER DC BENEFITS AND WHAT ARE THE KEY CHALLENGES

WHAT ARE THE SHORT AND LONG-TERM EMPLOYER OBJECTIVES

WHAT IS THE IMPACT OF THE NEW FREEDOMS?

The study was conducted by Barnett Waddingham and Standard Life in order to gain both consultancy and provider points of views.



Auto-enrolment experiences



Auto-enrolment is generally seen as a success as we now have many more people making long-term savings. However, implementing auto-enrolment for larger employers (i.e. the early stagers) was a challenge. This was not least because the rules are complicated, but also because payroll and pension providers had to develop brand new systems to cope with the new requirements – some which worked better than others! Larger employers had to implement solutions to deal with diverse workforces and many had to consolidate pension arrangements in order to establish the most efficient processes.

Auto-enrolment has required major projects to be delivered and the success of a project was often predicated on the chosen provider of the auto-enrolment system.

As the first stage of re-enrolment dates are approaching, we expect many employers will consider reviewing their auto-enrolment pension schemes.

➔ IN CASES WHERE EMPLOYERS CONSIDERED A MOVE AWAY FROM THE INCUMBENT PROVIDER, THIS WAS MAINLY DUE TO POOR EXPERIENCE WITH ADMINISTRATION PROCESSES.

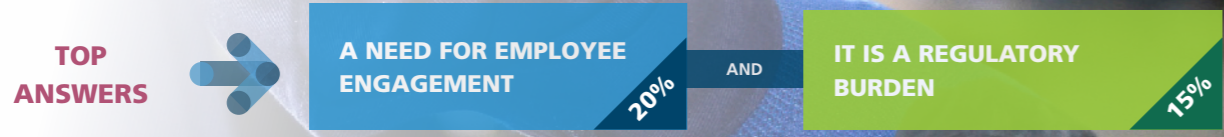


Benefits and challenges of DC schemes

What are the key benefits of your DC scheme?



What are the key challenges of running your DC scheme?



In relation to the key challenges, what support do you need?



It is heartening that employers want to do what is best by their employees when considering their pension scheme. A DC scheme is still seen as a good way to reward employees and a clear objective is to support people into retirement.

Corporates are keen to avail of technological innovations in helping them engage with employees. Demand is growing for 'FinTech' solutions and we're sure to see growth in this area.

However, the challenge of the regulatory burden is high in the employer's consciousness and the time and resource taken to operate the benefits is taking its toll. This mirrors our own experiences and increasingly our clients are voicing frustrations with regulations and new responsibilities.

“ENGAGEMENT IS KEY. WE HAVE A GREAT SCHEME BUT WE CAN ONLY DO SO MUCH WITHOUT IT BECOMING A ‘SELL’”

Employer objectives

What are the short-term objectives for your the scheme?

TOP ANSWERS



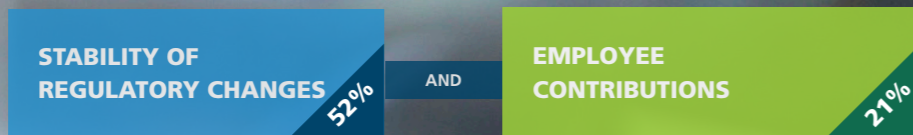
What are the long-term objectives for your scheme?

TOP ANSWERS



In your view, what is the single most important factor for DC pension success?

TOP ANSWERS



“WE’RE LOOKING TO WIND UP OUR TRUST BASED SCHEME”

Employers agree with our philosophy on how to make long-term savings work – it’s all about staying in; paying in; and good net investment returns. Major projects we are currently involved in are helping corporates encourage employees to pay a good level of contributions and making sure the DC scheme’s investment framework is right.

However, the starkest result in our survey is that employers see the stability of regulatory changes as the single most important factor for DC pension success. Employers are pleading to the Government to stop the incessant tinkering with the pension system, but are their voices falling on deaf ears?

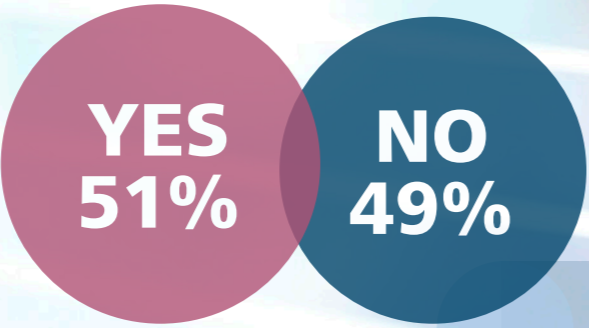
“SIMPLIFYING THE REGULATIONS WOULD BE VERY WELCOME. HOWEVER, I DON’T HOLD OUT ANY HOPE THAT IT WILL HAPPEN”

Australia is a good example of how regulatory burden affects a pension system. It has seen the number of employers operating single trust based pension schemes fall by over 96% in 11 years*, due to the increasing burden of regulatory change. We are already seeing this trend happening in the UK and more and more we are being asked to help with trust based scheme closures and wind ups. *APRA March Quarter 2014 Superannuation Statistics



Impact of new freedoms and flexibilities

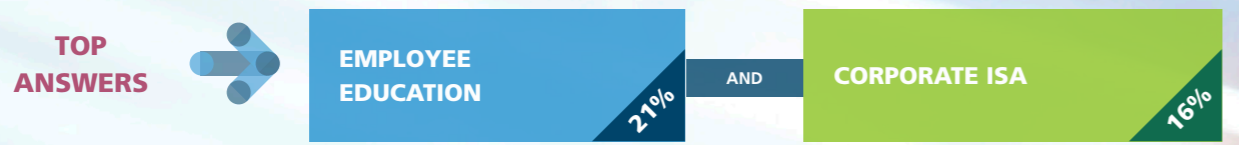
With the new pension freedoms, are you concerned that employees will no longer use the company's pension plan/DC scheme to support themselves into retirement?



Over half of the employers questioned are concerned that employees will no longer use their DC pots to fund their retirement. More and more employers are experiencing ageing workforces and the new freedoms could accelerate this. 8.6% of the UK's labour force is currently over age 65; whereas in other countries in which full pension freedoms are well established the percentage is higher – in New Zealand it is 17% and in the United States it is 17.3%. [ILO Key Indicators of the Labour Market (KILM), 7th Edition, 2011]

Corporates understand that there is a clear education gap around taking benefits at retirement. Later life courses are becoming increasingly popular, as well as online education systems designed to provide personalised information to individuals. We will have to wait and see how successful the forthcoming 'robo-advice' solutions will be.

If yes, are you considering directing more of your employee benefits spend to alternative benefits that might better fulfil your corporate objectives, and if so what other benefits are you considering?



An employer's view

Name: James Walker Group Limited **Industry:** Manufacturing **Employees?** Around 2,200

Name: Securitas UK **Industry:** Security Services **Employees?** Around 14,000

What are the most important benefits to your DC scheme?
 We believe that retaining and rewarding our employees are the most important benefits of our scheme.'

What are the key challenges to achieving this?
 It is regulatory change that brings the challenges and we would prefer it if the Government would stop tinkering with pensions and let it all settle down so that businesses have time to adjust.

In your view, what is the single most important factor for DC pension success?
 We believe the key to success is member engagement. This can only be achieved if other things are in place such as a stable regulatory environment. We would like to increase member understanding and encourage planning for retirement at an earlier age. For the over 55s in particular, we would like to provide more help. Continued commitment leads to better employee engagement, which should lead to better employee and employer outcomes.

What are the key challenges of running your DC scheme?
 Naturally with a large workforce, we have a big difference in level of financial understanding across the workforce. This includes people who were enrolled into a pension scheme for the first time in their working lives and are getting to grips with pensions jargon. This has led to an increase in employees asking us questions about pensions and what it all means. We have to ensure that communications are engaging, relevant and easy to understand. We run a pensions management committee and meet regularly to ensure that the pension scheme operates efficiently and to consider how we can improve employees' awareness of the key pension issues.

What are the key benefits of your DC scheme?
 The DC scheme is an important part of our remuneration package for employees as well as helping the employer to comply with auto-enrolment regulations. There is a good level of information available to members both online and paper based enabling employees to make the right decision when they are saving and at retirement.

In your view, what is the single most important factor for DC pension success?
 Employees need to engage in their own financial future and communicating effectively about retirement saving is key. We try and vary our approach and have used a variety of media to try and help them to make the right decisions around a suitable level of long-term saving and about making the right decisions at retirement.

In relation to the key challenges, what support do you need?
 Our pensions management committee works with our professional advisers and pension provider to ensure we are kept informed of latest legislative developments and where necessary financial issues are referred to the Executive Board. The ongoing support we receive helps us to see that the pension scheme is compliant, future proofed, providing good value for money for the members and complements our corporate objectives. Cascading information to our workforce that is spread around the country is sometimes a challenge. We have developed several solutions to help reach all employees with key messaging but this is constantly under review to consider better ways of doing this.

Barnett Waddingham viewpoint

Standard Life viewpoint

We are buoyed that the majority of employers responding to the study see DC pensions as a valuable employee benefit. Paternal employers are still seeking to create pension schemes that support people into retirement. We wholly endorse this approach – particularly as it’s our day job to do so! We also agree that engagement is key to the success of long-term saving and we need innovative ways to make sure people are educated to make rational choices as they approach retirement.

However, the new pension freedoms create new challenges. If we expect to see the same trends as other countries, then the fact that people can now **exhaust their pension pots early** will result in many holding onto their jobs for longer to generate incomes in later life. An ageing workforce can create risk for the corporate employer.

A worrying trend we’ve seen in Australia (which has operated mandatory pensions with full freedoms for almost 25 years) is that **employer paternalism around pensions is dwindling**. Australian pension schemes are not matching corporate objectives in supporting people into retirement and a decreasing number of employers are contributing more than the statutory minimums*. Instead, some companies are considering re-directing their pension spend to different types of benefits - those which are better placed for recruiting and retaining good quality employees – a trend we might expect to see in the UK*.

It is clear UK employers are **yearning for regulatory stability**, and if we do not get this there could be a complete disenfranchisement of UK plc’s from the pension system. **The Government should take notice of employers’ views** as these are the stakeholders who sponsor pension provision. If corporates lose focus on what is important to improve member outcomes, then we will not achieve what we all want – which is for people to be able to **retire and to do so with dignity**.



Paul Leandro,
Partner, Workplace Health and Wealth

**based on research undertaken by Barnett Waddingham’s team that visited Australia in October 2014.*

This research provides some fantastic insight into how employers are feeling about their pensions. Most importantly, we were delighted to see that the majority of employers view their pension as an asset to their business rather than just a cost. There are some other key messages in the survey for policy makers, providers and anyone else involved in providing the best possible retirements for scheme members.

Our ‘top five’ key messages:

- **The majority see their pension as an asset rather than just a cost.** The survey shows that employers are very positive about the role of pensions – while some see compliance as the main reason to provide a pension, this was the least most popular answer in the survey.
- **Getting the basics right is key to enable focus on the areas that make the pension a real asset to a business and their people.** So it was illuminating to see the wide range of experience that employers have had with automatic enrolment – with scores ranging from ‘excellent’ to ‘terrible’.

- **There’s a clear need for providers and employers to work together to find new and better ways to engage.** Employee engagement was the biggest challenge highlighted by employers. This is a shame as it’s intuitively linked to contribution levels, which are one of the three biggest factors affecting member outcomes (investment quality and support around retirement options being the other two).

It was encouraging that nearly a third of providers were planning to spend more on employee engagement.

- **It is worrying that the top objectives of schemes is not to increase engagement or contribution levels, but to keep up with regulations.** This is a natural consequence of so much change in recent times. Employers seem to feel they can hardly catch up to get to the list of things they really want to do for members.
- **A massive 51.9% of respondents said stability of regulations was the single most important factor for DC pension success.** Following from the previous point, employers are calling for a period of relative calm so they can focus on the factors that most drive better member outcomes.



Alan Ritchie
Head of Employer and Trustee propositions



For more information please contact:

Paul Leandro, Partner, Workplace Health and Wealth

✉ paul.leandro@barnett-waddingham.co.uk

☎ 0151 235 6609

🖱 www.barnett-waddingham.co.uk/clarity

🖱 www.standardlifeworkplace.com

Barnett Waddingham LLP is a body corporate with members to whom we refer as "partners". A list of members can be inspected at the registered office. Barnett Waddingham LLP (OC307678), BW SIPP LLP (OC322417), and Barnett Waddingham Actuaries and Consultants Limited (06498431) are registered in England and Wales with their registered office at Cheapside House, 138 Cheapside, London EC2V 6BW. Barnett Waddingham LLP is authorised and regulated by the Financial Conduct Authority and is licensed by the Institute and Faculty of Actuaries for a range of investment business activities. BW SIPP LLP is authorised and regulated by the Financial Conduct Authority. Barnett Waddingham Actuaries and Consultants Limited is licensed by the Institute and Faculty of Actuaries in respect of a range of investment business activities.