Summary

Background and methodology

The Department for Work and Pensions (DWP) commissioned IFF Research to undertake a qualitative study to further understanding of the factors influencing private sector employers' decisions to change their pension provision and explore whether this was accompanied by any change to retirement policies. This research was designed to complement the quantitative data provided by the Department's Employers Pension Provision (EPP) study.

More specifically, the objectives of this study were to:

- identify the factors that influence employers' decisions about the type of pension provision they offer to employees and the factors that lead them to change this;
- explore the process by which such decisions are made and implemented including the extent to which employees are involved in the process;
- identify the key individuals and their roles in the decision making;
- explore employers' existing retirement policies;
- to provide information on employees' awareness and understanding of employers' pension provision, including reasons for take-up and non-take-up, the value employees place on occupational pension schemes and the impact of pension provision on employment decisions.

The study consisted of 30 case studies of organisations that had made changes to their pension provision over the course of the last two to three years or who were considering doing so in the near future. The individuals interviewed within each case study varied according to the size and nature of the organisation involved but typically involved two to three interviews with members of senior management in departments such as Finance or Human Resources, an interview with an employee representative (such as a trade union representative, a staff association representative or an employee trustee), where the firm employed such individuals, and around five interviews with employees.

Reasons for providing pensions

To some extent, employers offered a pension scheme because they always have done – it was part of the tradition of the organisation. In the past employers had offered pensions because they felt that, in part, it was their role to encourage employees to save for retirement. This attitude might be termed ‘paternalistic’ (and indeed this is a term that we have used throughout this report to describe this behaviour). This was term that many employers used themselves, often with slightly negative overtones. It was an attitude that was felt to be on the wane as increasing emphasis on individual choice and more transient workforces had rendered it ‘old-fashioned’. This was a view that some employers had reached as they had come under increasing pressure to justify the costs of their pension scheme (from their own board of directors, other parts of the organisation, if they were part of a group, or their shareholders).

Hence employers were looking to justify their pension provision in terms of its recruitment and retention value but many were having difficulty in doing this in any quantifiable way (and hence were mostly relying on anecdotal evidence).

Some, with defined benefit schemes that were open to new members, had come to realise that these schemes were now a ‘point of difference’ in the recruitment market and were planning to advertise these more when recruiting staff. Some were either using or planning to use total benefits statements to help to use their pension scheme as a retention tool by demonstrating the monetary value of pension contributions to employees.

However, most employers felt that pension schemes only had recruitment or retention value for certain categories of staff (generally older employees and/or those in managerial/professional roles). This, combined with the need to justify the costs of pension provision, was leading employers to think more about tiered or targeted pension provision. There was also a feeling that many employees did not understand or appreciate the differences in types of pensions and hence that it was only important to offer ‘a pension’ to meet employee expectations and the type of pension mattered much less.

Employees generally seemed to trust their employer to select a ‘good’ pension scheme on their behalf and as such expected a degree of paternalism. Most members did not seem to have joined the scheme because it was a good scheme but more because it was the scheme available to them at the time when they felt that their personal circumstances made contributing to a pension possible.

Perceived hierarchy of pension types

In employers’ eyes defined benefit schemes were seen to be the best form of pension provision available in terms of the benefits that they offered staff. However, they were also seen to place the greatest burden on employers in terms of absolute cost, risk exposure and, to a lesser extent, administration. They were widely viewed as a ‘dying species’. Beyond defined benefit schemes, employers generally felt all scheme types to be equal and distinguished purely on the basis of the level of employer contribution.

Employers tended to think either that their pension provision was at least as good as their competitors or that their pension provision was less generous but the that pension provision was of very little interest to the bulk of their employees.

Among employees, the level of understanding of their employer’s pension scheme varied considerably. Most had not considered how their scheme compared to those offered by other employers. Employees generally considered occupational pensions to be a positive aspect of their ‘package’ but few had a clear idea of what would distinguish between different types of occupational scheme. A few older members of defined benefit schemes felt that their scheme was a particularly good one but the majority were unable to judge how good or bad their scheme was. In no cases did employees feel negatively about their employer because of the type of scheme on offer.

The importance of pensions to employees

Only a few employers felt that pensions were perceived as important by all their staff. The majority felt that pensions were only valued by older staff (for whom the relative 'closeness' of retirement led to a greater focus on such issues) and those in more senior or professional categories. There was a widespread belief that pension provision had no impact on the employment decisions of those under 30 or on those towards the bottom of the pay scale.

Staff in lower-paid occupations were often those among which employers were experiencing high staff turnover and, while they appreciated that there would be financial benefits to them in improving retention rates for these staff, they felt that a better pension provision would not be a successful way of doing this.

Employers felt that staff in middle-ranking roles and/or middle-age brackets fell between these two polar positions. They felt that these staff cared that there was a pension offered but not about the exact nature of that provision (which in turn was seen to reflect both a lack of understanding and a lack of sufficient interest/inclination to find out more).

The extent to which employers were concerned about take-up of their pension schemes was influenced greatly by the individual attitudes of senior managers. Employers tended to care about the level of take-up of their pension scheme:

- where paternalistic instincts were still quite strong;
- where there were defined benefit schemes in place that senior managers were a member of and the continuation of the scheme relied on recruiting new (young) members;
- where there were dedicated pensions staff (usually in organisations providing defined benefit or defined contribution schemes) who saw part of their job role as increasing take-up;
- where employers felt that the scheme had a recruitment or retention value.

Employers were less likely to promote take-up if they were under considerable pressure to reduce costs of employee benefits or where they felt that staff were unlikely to be able to afford pension contributions.

The majority of employees stated that the pension offered by their employer did not play any part in their decision about whether or not to join their current organisation. However, a minority of (long serving) scheme members stated that they did now view their pension scheme as a major part of their benefits package and would at least 'think twice' before leaving. One or two employees who were members of defined contribution schemes stated that they would probably at least stay with their current employer until the vesting period was up.

Pensions tended to be a nagging concern for non-members but not something that they saw as an urgent priority.

Contribution levels[1]

Most of the employers interviewed who were running defined benefit schemes felt that the contributions that they were having to make to these were extremely high (typically between 15 and 20 per cent of salaries). Those running defined contribution, GPP or Stakeholder schemes with an employer contribution were typically contributing between four and six per cent of salaries, conditional on a matched employee contribution. Employers that were running both defined benefit schemes and other schemes with an employer contribution were making higher contributions into their defined benefit scheme than into their other scheme and some were concerned about the fairness of this.

Employers generally did not think that employees made any form of link between salary levels and employer contributions. They did not think that the vast majority of employees would be prepared to sacrifice a higher salary for a higher pension contribution. Employers would like to be able to encourage employees to make this link. When employers had reduced pension benefits they had not increased wages to compensate.

Only some pension members were aware of the level of contribution made by their employer to their plan. Awareness was lower among defined benefit scheme members. All those who were in schemes without an employer contribution were aware that their employer made no contribution.

The fact that there was an employer contribution was a quite important reason for joining the scheme for most members of schemes with an employer contribution. However, for most, it was less important than reasons around personal and financial circumstances. A few stated that the fact that there was a contribution was very important – they felt that to have decided not to join would have been ‘forgoing’ an element of their salary to which they were entitled.

Few employees made a direct link between pension contributions and wages. A small number of defined contribution, GPP or Stakeholder scheme members did state that they had been encouraged to join the scheme more quickly than they might otherwise have done so because of the thought that they would have been ‘missing out’ on ‘additional salary’ that they were entitled to.

Communicating information about pensions

The type of pension scheme that employers offered was rarely detailed explicitly in job advertisements although some employers were considering doing so in future.

Employers usually distributed a brochure about the pension scheme to employees as part of a ‘welcome pack’. After this, the amount that they tended to communicate about pensions to those who had not joined depended on their view on the value of increased take-up.

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1 As a qualitative exercise, this study was not representative of all employers and hence findings about contribution levels are illustrative/indicative only. The Employers Pension Provision (EPP) Study provides quantitative information about contribution levels.

Organisations with Stakeholder provision to which they did not contribute made little effort to promote their scheme for several reasons;

- this provision was often covering 'non-core' staff;
- they felt that there was not much to promote if they were not contributing;
- they felt that, as a Government initiative, it was not up to them to promote it.

A few employers were frustrated that they were not able to 'sell' their pension scheme as much as they would like for fear of being deemed to offer financial advice.

Few employees read the brochure that they received about the scheme in much detail. Several stated that they found it off-putting and difficult to understanding – these employees would have preferred a shorter document explaining the key features of the scheme. Most members recalled receiving statements about their scheme although again some found these hard to follow.

Most current non-members stated that there was no further information that they needed to reach a decision about whether to join the pension scheme, reflecting that this decision was driven largely by their personal circumstances. Those that would have liked more information wanted either to be reassured that their employer's scheme was a 'good' one or to have a concrete figure for the pension that they could expect if they were to join.

Changes taking place in pension provision

The main types of change that organisations included in the research had made or were considering making to their provision were:

- changes to a defined benefit scheme;
- setting up other schemes with an employer contribution;
- changes to the employer and /or employee contribution rates;
- setting up Stakeholder pensions schemes without an employer contribution.

All employers with defined benefit schemes felt that these schemes were increasingly under pressure and that their long-term viability was fragile. The key drivers for making changes to these schemes was a need to cut or contain the costs that had resulted (or were likely to result) from falling annuity rates, poor stock market performance and an ageing workforce. Often this need to cut/limit costs was part of a more general corporate aim to increase profitability. The extent of pension scheme costs and the longer-term implications had often been brought to light by a combination of the MFR and the accounting standard FRS17.

While the rising costs of defined benefits had often been a concern for sometime, in some cases it had been company restructuring (sometimes as the result of mergers and acquisitions activity) that had increased the urgency with which organisations were seeking to tackle these costs. In a few cases this was because organisations were looking for external funding to finance restructuring and felt that the current level of costs ascribed to their pension fund would make them an unattractive prospect for lenders.

A need to address the rising costs of defined benefit schemes had led employers to investigate the commercial case for maintaining their scheme in its current format. Several employers had concluded that this case was weakened by the facts that few competitors were continuing to offer defined benefit schemes and that there was little concrete evidence of the recruitment or retention value of offering such a scheme. Some had also concluded that offering a defined benefit scheme (in its current form) demonstrated a degree of 'paternalism' (by ensuring that employees were well-provided for in retirement) that was no longer appropriate, given a more transient workforce (and often one that was considerably larger than when the scheme was established).

Employers facing these pressures had or were planning to close their scheme to new members or to restructure the scheme. Most commonly, re-structuring had involved increasing employer and/or employee contributions although some had changed the accrual rate of benefits (e.g. from 1/60th to 1/80th) or had altered some subsidiary benefits (e.g. removing the early retirement age).

Changes to defined benefit schemes tended to be initiated by scheme trustees when concerns surrounded a current deficit or concerns about long-term funding or the senior management team when concerns surrounded the rising costs of provision.

Some employers that had set up schemes with an employer contribution had done so in order to establish a less costly alternative to a defined benefit scheme. Others had had schemes with Equitable Life, were looking to streamline a number of 'legacy' pension schemes or wanted to establish a separate scheme for employees of an organisation that they had acquired. The impetus to set up these schemes was generally initiated by the senior management team.

Employers, who had changed their contribution levels to schemes that were not defined benefit arrangements, had mostly increased contributions only for certain categories of staff to tackle recruitment problems.

Setting up Stakeholder pensions without an employer contribution was something that employers had done purely to meet legislative requirements and there had not be much 'buy-in' to this process. Some did not feel that it was their responsibility to promote a Government scheme, some who had pension plans prior to the introduction of their Stakeholder scheme felt that the Stakeholder was only covering staff who they had found to place little value on pensions (younger staff and those in lower paid occupations) and others simply felt that there was not much 'benefit' for employees in a Stakeholder scheme (because there was no employer contribution).

External advisors were often involved in making changes to pension provision – sometimes providing the impetus for change but more commonly to advise on the alternatives available once the management team had decided there was a need to make changes.

Communicating pension scheme changes

Employers had used a range of methods to communicate the changes that they had made to their pension schemes. These included individual 'personalised' approaches, such as letters or face-to-face discussions, group presentations or roadshows or communication through group resources (notice boards, intranets, newsletters).

Employees affected by the changes that had been made were generally aware that there had been a change. Employees that were aware and had received information (from any source – written or verbal) about the changes felt that the information that they had received was generally good and clear. This was reflected in the fact that all these employees correctly understood how the changes would affect them, at least initially, (some were less clear about how it might affect them in future). The types of communication that had been most effective in communicating changes to employees were the more personal approaches such as individual letters, group presentations or staff meetings.

Where employees were critical of the information that they had received this was because it was felt to be too generic. However, most criticism was about the lack of communication since the initial announcement. These criticisms were mainly voiced by members of defined benefit schemes and reflected their concerns about the health and continuation of the scheme.

Reactions to pension scheme changes

Where defined benefit schemes had been closed to new members this did not seem to have provoked a negative impact from employees because the change only affected new joiners to the organisation.

Where only the employer contribution to defined benefit schemes had been increased, this often had not been communicated to employees and hence had not provoked a reaction. (Some employers felt that to communicate this change would be seen by employees to set a 'precedent' and they were not confident that they would always be able to afford further remedial increases in the future.) Where the employee contribution had been increased this seemed to have been met with resigned acceptance and relief that the scheme was not about to close (although it had made most more anxious that the scheme could be on the brink of closure). None of the employees affected by changes to defined benefit schemes had left the scheme as a result.

In organisations where a new pension scheme (with an employer contribution) had been established, this was generally viewed as a positive development (although not necessarily a particularly strong one).

Generally speaking, where a Stakeholder had been set up without an employer contribution this was felt to have no real benefit for employees. Hence, none of the eligible employees covered by this research had yet joined the scheme (although one or two had or were considering it). This reaction was backed up by the fact that several employers reported that their Stakeholder schemes remained empty.

Retirement policies

Most employers felt that while early retirement remained aspirational for a considerable proportion of their staff, it was unlikely to be financially possible for all below very senior management. This was borne out in interviews with employees – a significant minority voiced a vague aspiration to retire early (typically around five years before the normal retirement age of their organisation).

Employers generally felt that it was desirable for employees to leave the organisation at normal retirement age because this served as a way of introducing 'new blood' into the organisation without impacting negatively on staff morale. While none had formal policies around late retirement, most could cite instances where they had allowed employees to retire late. These tended to be staff in senior or difficult to replace groups. None had plans to introduce a policy on late retirement, preferring to retain the ability to allow (or not allow) late retirement on a case-by-case basis.

Incidences of allowing flexible working in the run-up to retirement were less common that incidences of allowing late retirement and only a few employers had schemes in place to accommodate this.

There was little evidence of employers thinking about pensions and retirement in a 'joined up' way. Generally the two issues were dealt with by the same or similar groups of people but the two sets of policies were run in parallel.

Only a very few employees anticipated retiring late and most of these were aged over 50. Some did mention that they would have to wait and see what the value of their pension was before they could decide whether or not it would be possible for them to retire when they were hoping to.

Conclusions

The key conclusions that can be drawn from this research are:

- paternalistic attitudes towards pension provision are diminishing among employers as they come under increasing pressure to justify the costs of pension provision;
- an increasing focus on the recruitment and retention value of pensions may lead to increasingly tiered or targeted pension provision;
- some employers are looking to increase the value that employees attach to pensions by exploring possibilities such as total benefits statements. This would seem worthwhile, since many employees do not appreciate the extent of the employer contribution made into their pension or the implications of the tax relief on pension contributions;
- the brochures that tend to be distributed to employees when they join an organisation are not an effective promotional tool. Short summary documents are more effective;
- employers with defined benefit schemes feel that these are increasingly fragile and are looking to assess possibilities to safeguard their long-term future. Those that have closed schemes to new members do not always seem to have been aware of the full range of possibilities in terms of restructuring the benefits of the scheme and communication about these could be valuable;
- where defined benefit schemes have closed they have normally been replaced with other schemes with an employer contribution;
- employers that have introduced Stakeholder schemes as supplementary provision have rarely bought into this process fully. This is often because the scheme is covering ‘non-core’ staff;
- changes to provision have been communicated to staff in a range of ways. The most effective means of communication tend to be the more personal approaches – either individual letters or face-to-face discussions;
- very few employers have policies on late or flexible retirement. Very few employees currently anticipate that they will be working beyond their employer’s normal retirement age – they are more likely to aspire to early retirement.

1 Introduction and methodology

1.1 Introduction

The Department for Work and Pensions (DWP) commissioned IFF Research to undertake a large scale qualitative study to further understanding of the factors influencing private sector employers' decisions to change their pension provision and whether any changes were also made to retirement policies.

The study covered a number of issues broadly linked to the DWP's remit to promote security and independence in retirement and the rest of this section discusses each of these in turn.

There is considerable concern about the extent to which people will have sufficient monies to live on when they retire. The Government has commissioned a number of reviews[2] and recently issued a Green Paper on pensions. This study will provide input to DWP policy development arising from the Green Paper and its broader initiatives in this area.

Employers play a key role in the provision and funding of pensions. There has been considerable change in recent years in the extent and nature of occupational provision and this is likely to continue. Key changes include the introduction of Stakeholder Pensions and the move away from defined benefit (DB) to defined contribution (DC) schemes. Of particular concern about the latter change, is that some employers have reduced their levels of contribution. There is also no requirement on employers to contribute to Stakeholder pensions. The increased cost of pension provision (due to increasing life expectancy) coupled with the recent poor performance of the stock market has caused problems for some DB schemes, in maintaining Minimum Funding Requirements (MFR) – which may have encouraged the move to DC schemes and other types of provision. The problem of funding shortfalls may also have been compounded by the introduction of the new accounting standard, Financial Reporting Standard 17 (FRS 17), which makes changes to the way pension costs and associated assets and liabilities are treated in the accounts of the sponsoring employer.[3]

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2 Sandler Review of retail savings, Pickering Report on pensions simplification and Inland Revenue review of tax simplification.

3 Companies have until June 2005 to comply with the new requirements, but some companies are already looking at their pension funds on an FRS 17 basis and more are expected to do so in the near future.

The biennial Employers Pension Provision study, (EPP) is a large quantitative study that monitors the extent and nature of pension provision among private sector employers including recent and proposed changes. This qualitative study has been designed to complement the EPP by exploring in more depth the reasons underlying changes organisations are making to their pension provision.

The DWP has a specific target to increase the employment rate among people aged 50+, which is significantly lower than for the working-age population as a whole. Raising the employment rate among this group is a key objective for two reasons:

- encouraging people to stay in work longer may have a direct impact on their post retirement income;
- demographic changes (reflecting the ageing population and increasing life expectancy) mean that there will be fewer people in work relative to the pensioner population.

There is evidence to suggest that some employers, recognising that demographic changes may lead to future skill shortages and further exacerbate pressure on funding pension provision, are looking to move away from a culture of early retirement and introduce more flexible policies, which create opportunities for employees to work beyond the normal retirement age. The Pensions Green Paper also makes proposals for 'extending working life'.

Thus employers' retirement policies and practices and, in particular, any links to pension provision are also of key interest to the Department and are therefore explored together in this study.

1.2 Objectives of the research

More specifically the key objectives of the study were to:

- identify the factors that influence employers' decisions about the type of pension provision they offer to employees, including the factors influencing changes to provision;
- explore the process by which such decisions are made and implemented, including how schemes are promoted to employees;
- identify the key individuals and their roles in the decision-making and implementation process;
- explore employers' existing retirement policies, in particular where any form of flexible retirement is available and the interaction between employers' decisions about pension provision and retirement policies;
- to provide information on employees' awareness and understanding of employers' pension provision, including reasons for take-up and non-take-up, the value employees place on occupational pension schemes and their impact on recruitment and retention of staff.

Within this, the research also sought to:

- further understanding about the types of pension employers provide and the reasons for that provision and why some employers are choosing to make changes to their provision;
- explore the importance of the link between employer contribution levels and employee take-up of pensions;
- provide information on effective methods of promoting employers' pension schemes to employees;

- provide information on whether pension and employment issues are considered in relation to each other, or entirely separately, by employers;
- examine whether pensions do have an effect on recruitment and retention, as is often suggested.

1.3 Methodology

Thirty case studies were conducted with private sector organisations that had made, or considered making, changes to their occupational pension provision in the last two years.

The exact number and type of interviews conducted within each organisation varied depending on its size and nature, but typically involved:

- two to three in-depth, face-to-face interviews with senior management such as the Owner/ Managing Director, Personnel Director, Finance Director and Pensions Manager. Emphasis was placed on talking to senior managers who had a full appreciation of the *business* reasons for the change and how the decisions were made;
- a face-to-face interview with an employee representative such as trade union or staff association representative or employee trustee, where appropriate. They were felt to play a key role in promoting the interests of employees/scheme members and, as well as providing valuable insights in their own right, to offer potential to help to understand any differences in employer and employee/scheme member perspectives;
- five to six depth interviews with employees (conducted by telephone or face-to-face depending on the preference of the employer). These interviews covered a mix of employees by age, gender and work status and included both members and non-members of the pension schemes.

In total, 80 interviews were conducted with senior managers and employee representatives and 143 with employees. Further information about these respondents is given in appendix A.

A large sample of private sector organisations were initially approached and screened to determine if they had made, or considered making, one or more of the following changes to their provision in the last two years and were willing to take part in the study:

- the introduction of, or any change to, a defined contribution scheme (in particular from a defined benefit scheme) for existing and/or new members;
- any change in employer and/or employee contributions;
- the introduction of, or any change to, a group personal pension scheme (GPP) or contributions to personal pensions;
- the introduction of a Stakeholder scheme, in addition to or instead of another scheme or where there was no provision beforehand.

Table 1.1 shows which of the above changes the 30 organisations had made, or considered making, in the last two years. (Some organisations had made, or considered making, more than one of these changes.) The number of organisations interviewed who had introduced or changed a defined contribution scheme (in particular those who had changed from a defined benefit scheme to a defined contribution scheme) was low, as we found comparatively few of these in our sample and encountered particular reluctance among employers who made this change to take part in the research. However, in addition to the employers who had substituted defined contribution provision for a defined benefit scheme, three others had substituted GPP or Stakeholder arrangements for defined benefit provision. In total, 28 out of the 30 organisations covered had made one or more of the above changes in the last two years and the remainder had considered but either decided not to make this change or were still in the process of deciding.

Table 1.1 Type of change to pension provision made/considered in last two years

	Total
Introduction of, or change to, a defined contribution scheme – including substituting defined contribution provision for defined benefit provision	6
Change to employer and/or employee contribution levels	14
Introduction of, or change to, a GPP scheme or contributions to personal pensions	6
Introduction of a Stakeholder pension scheme in addition to, or instead of, another scheme or where there was no provision before	14

The organisations were selected for interview to provide coverage of a range of types of change and also to obtain a mix of the different sizes and types of employer. The sample was therefore **not** designed to be representative of the profile of private sector organisations making changes to their provision. It has enabled us to draw conclusions about the factors driving change but the research findings should not be used to draw any conclusions about the extent to which these changes are taking place.

The profile of the organisations researched by size and business activity is shown below. They were spread fairly equally across the different size bands. About a third of the organisations covered were in the manufacturing and construction sectors. The remainder were service industries including a number of not-for-profit organisations such as care homes and charities.

Table 1.2 Profile of organisations covered

	Total
Size of organisation (number of employees)	
Less than 100	8
100-499	9
500-4999	10
5000+	3
Type of organisation (business activity)	
Manufacturing	6
Construction/utilities	6
Business services	4
Media	3
Financial services	3
Retail/distribution	3
Health	1
Not-for-profit	4

The organisations covered also had the following types of pension provision (most employers had more than one type of scheme). In many cases the defined benefit scheme was closed to new members. All bar three organisations were making contributions to at least one of their schemes for at least some of their staff.

Table 1.3 Type of pension provision

	Total
Defined benefit	20
Defined contribution	9
Group Personal Pension	11
Contributions to personal pensions	3
Stakeholder pension	22

All of these schemes had an employer contribution for at least some staff with the exception of 13 of the Stakeholder schemes covered by the research.

The screening exercise was conducted in November 2002 and the main fieldwork took place between December 2002 and April 2003.

Further details about the methodology are given in Appendix A of this report. Copies of the topic guides used are in Appendix B.

1.4 Report structure

The remainder of this report is structured as follows. In most sections findings from the interviews with senior managers (interviewed in their capacity as employers and referred to as 'employers' throughout the report), staff representatives, where appropriate and employees have been drawn together in addressing the issues and to highlight any differences in views between them.

- Chapter 2 – discusses the reasons why employers provide pensions and the type of provision offered and contrasts this with employees' perceptions of why employers offer pension provision and the impact of this on their views of them as an employer.
- Chapter 3 – explores whether employers believe some types of pension are better than others and how they feel their provision compares with competitors. It also discusses employees' knowledge of the types of provision offered by their employer, how good they feel it is and what attracted members to join the scheme and put off non-members.
- Chapter 4 – explores employees' attitudes towards pensions from both the employer and employee perspective. It also discusses the role that pensions play on employees' decisions to join or stay with an employer.
- Chapter 5 – explores the impact of contribution rates on attitudes and take-up specifically.
- Chapter 6 – examines how pensions are promoted and explains and which methods appear to be most effective.
- Chapter 7 – examines the reasons why employers have made changes to their provision and the people and processes involved.
- Chapters 8 and 9 – examine how these changes have been communicated to employees, how effective this has been and the impact (anticipated or actual) on take-up of the scheme and employees' attitudes to pensions and their employer.
- Chapter 10 – examines employers' attitudes, policies and practices towards retirement, in particular allowing employees to work beyond the normal retirement age and to work more flexibly in the run-up to retirement and whether there is any evidence of 'joined-up' thinking about pensions and retirement.

- Chapter 11 – draws together, in one section, the findings from the interviews with employees, covered in the other chapters of this report and explores in more detail any differences in attitudes and behaviour between different groups of employees.
- Chapter 12 – summarises the main conclusions emerging from the study.

2 Why are pensions provided?

In this chapter we look at the reasons why employers had chosen to make pension provision and the relative importance of these reasons. We also look at the extent to which these perceived 'uses' of pension provision had shaped the types of schemes selected. From an employee perspective, we look at the extent to which employees trusted their employers to make pension decisions for them.

2.1 Historical reasons for providing pensions

To some extent employers provided a pension simply because they always had done. In many of the organisations interviewed a pension scheme had been in place for many years and it was an accepted part of the benefits infrastructure. Often these employers felt that they would not be able to remove their pension scheme at this stage because it was such an entrenched part of the company's operations.

They also felt that current and potential employees expect there to be a pension scheme that they can join – so that some form of pension scheme was a necessity for employers who wanted to be able to compete in the recruitment market (particularly for non-manual staff). However, most employers did conclude that (for the bulk of potential employees) it did not matter what type of pension scheme was offered but simply that there was one so that employees could 'tick the pension box'.

Many employers felt that providing a pension scheme (that goes beyond the legal requirement) was part of their duty towards their employees. A general feeling that it was simply 'the right thing to do' was fairly widespread. This paternalistic view of pension provision stems from a belief that ensuring that employees save for retirement was part of an employer's responsibility.

> *'It's part of making staff aware of both the necessity and benefit of providing for pensions in the long term.'*
>
> Large manufacturing firm

> *'Its something I personally value myself and it might sound a bit paternalistic but I wish I had joined a company that had one when I was younger. I think it is of tremendous value.'*
>
> Large services firm

> *'We aim to be a good employer, so it is right that our people have the opportunity to enter a pension scheme.'*
>
> Medium care organisation

Organisations that thought in this way were more likely to be providing pension schemes that were open to all employees and offered comparable levels of benefits across all categories of staff. These organisations had a range of different types of provision in place although all those who were particularly keen to ensure the preservation of defined benefit schemes viewed pension provision in this way.

However, there was a growing feeling among employers that have traditionally held a paternalistic attitude towards pensions that assuming this degree of responsibility was becoming less appropriate given changing working practices (i.e. a decrease in ‘loyalty’ to a particular employer and, as a result, an increasingly transient workforce) and, perhaps more importantly, more expensive and therefore difficult to justify financially.

Some (long-established) employers felt that their organisation’s position on pensions had been cemented in an era when employees spent most of their working lives with the same employer and had failed to evolve as the workforce has become more transient. They also felt that social norms have been placing an increasing degree of emphasis on the need for ‘individual choice’.

Others who have witnessed quite rapid growth over recent years (either organic or through mergers and acquisitions) felt that the perception of the workforce as part of a family (which they felt viewing pension provision as an employer’s social responsibility implied) had become unsustainable as the number of staff employed had increased. These companies also felt that as they have grown, they have come under increasing pressure to justify costs and that, in this context, ‘generous’ pension schemes offered to all employees have become difficult to maintain.

We have referred to this shift in corporate culture throughout this report as a decline in paternalism. The term paternalism does perhaps have negative overtones and it is often in this sense that it was used by those employers who are experiencing this type of change. We have used the term throughout this report as it seemed the most accurate and concise way of expressing this particular set of attitudes towards pension provision – its use is not meant to convey any value judgements about these attitudes.

2.2 Emerging reasons for providing pensions

This shift away from a paternalistic stance on pensions has meant that employers were increasingly focusing on the demonstrable financial benefits of providing a pension scheme. Most were at the early stages of identifying (and working out ways of quantifying) what exactly those benefits were.

Some had started to focus on using the pension scheme as a recruitment tool. At the time of interview, approaches which sought to ‘sell’ the pension scheme as a key reason to join the company were aimed mostly at senior managerial and/or professional groups or other key staff. For example, a medium size manufacturing company had introduced their pension provision because they felt it was necessary to enable them to poach experienced sales representatives from other firms. Similarly, a large services employer was considering enhancing their pension provision for chefs to help with recruitment and retention of this key group.

At best, employers had anecdotal evidence about the success of this targeting. A few were trying to work out ways in which the impact of their pension scheme on recruitment could be measured in a more structured way but none had yet developed any mechanism for doing so.

There was an awakening realisation among companies providing defined benefit schemes that these schemes were now a *'point of difference'* that could be exploited in the job market. Conversely, some of those who offered group personal pensions (GPPs) or defined contribution schemes felt that recent closures of defined benefit schemes had meant that their own schemes were no longer necessarily the *'poor relation'* and as such could have a recruitment value.

> *'Historically you had to have one, just to be a player, with 60ths and final salary. It was a hygiene factor maybe, but now it's become a differentiator as so many final salary schemes are closing.'*
>
> Large energy company

> *'Pensions are an expensive benefit, but I think its something that gives us the edge now, enabling us to employ better quality people…..We've never had a reputation for being the best payers in the area, but we have never had any trouble recruiting people and I think one of the reasons for that has been the pension plan.'*
>
> Large manufacturing company

Additionally, some employers were beginning to view their pension scheme as a loyalty bonus. However, they were finding that proving the impact of a pension scheme on retention was even more difficult than providing evidence of its impact on recruiting staff (and some felt that it was impossible to prove the relationship between pension provision and retention). There was a common sentiment that providing a pension scheme *should* be helping with staff retention rather than a conviction that it was actually doing so.

In some cases, employers were using their pension provision to help with retention in a defensive way i.e. they were encouraging line managers to demonstrate the total value of their remuneration package (including pension benefits) to employees voicing a desire to leave the organisation (and particularly those who were planning to leave to secure a higher salary).

A couple were sending out total benefits statements[4] to all employees in the hope that this would heighten their awareness of the value of the pension that they receive from their employer (or the value of the pension that they would qualify for if they joined the pension scheme) and hence increase loyalty. Others mentioned that they were considering embarking on this sort of communication with employees to improve retention.

However, despite a desire to realise greater strategic benefits from providing a pension scheme, most employers felt that a pension scheme only had potential recruitment and/or retention benefits for certain categories of staff. There was a widespread belief that pension provision had no impact on the employment decisions of the under 30s or those at the lower end of the pay spectrum (and it was often staff categories towards the bottom of the pay scale that employers were having particular difficulties in retaining).

Partly because of the fact that employers felt that pensions were only valued by certain groups of staff and partly because employers were rarely concerned about recruitment or retention levels of ***all*** staff, this increasing focus on the strategic use of pensions was leading employers away from a 'blanket' pension provision towards a more targeted offer.

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4 A total benefits statement is a document issued to employees displaying the financial cost to the employer of each of the benefits that they have received. Hence these statements seek to put a financial value on the full benefits package that the employee is in receipt of.

'Providing pensions for all staff is utopian – providing higher levels to more senior staff is more commercially driven.'

Large construction company

A few large organisations were starting to consider a 'menu-style' benefits system whereby employees would be able to choose from a range of benefits (of which the pension scheme would be one) up to a specified value. The hope was that allowing this level of choice would maximise the recruitment and retention value obtained from the provision of employee benefits (and also help to contain the costs of benefit provision by 'capping' the benefits that each employee could take). However, these employers recognised that introducing such a system would be a long process. In one or two of these organisations, Human Resources staff were keener on this approach (feeling that it could maximise the recruitment and retention value of the benefits package) than Finance staff (who were more concerned about the practical difficulties of attributing comparable financial values to each benefit and the administrative difficulties of dealing with many different package combinations).

2.3 Do employees expect a degree of paternalism in pension provision?

The majority of employees did seem to have made a decision not to devote much time to consideration of their pension options on the understanding that their employer could be trusted to sort out a 'good' scheme. This reaction is a combination (in roughly equal measures) of positive trust in the employer, apathy/lack of interest in pensions generally and a lack of understanding (or assumption of the inability to understand) differences in pension schemes. It is also a result of a view that it is not particularly important to consider the quality of an employer's scheme as most employees consider the scheme available to be the only option open to them. To this extent they look for the paternalistic approach that their employers state that they have historically taken.

'It is a bit of a minefield – you just have to be trusting – that's what everybody does.'

Female employee of large services firm, aged 43, member of defined contribution scheme

'You just put all your trust in the fact that it will be there when you retire.'

Female employee of a large utilities firm, aged 38, member of a defined benefit scheme

'I guess all blue chip employers should offer a good pension scheme and I'd put my company into that category'

Male employee of a large leisure/entertainment organisation, aged 40, member of a defined benefit scheme

'I don't understand exactly how it works, I trust the company to calculate my pension and work everything out for me. The company is a safe bet with good assets and will look after the staff.'

Male employee of a large services entertainment company, aged 21, member of a defined benefit scheme

Some members of schemes felt that the simple fact that they had 'a pension' would mean that they would be looked after in retirement. They did not appreciate that the type of scheme that they had joined would have implications for the amount they would have to live on when they retired. This does back up the view of employers that, in terms of what the bulk of their employees expect of them, it is important to provide a pension but the type/quality of that pension provision does not play a part in either the employment decisions or the overall job satisfaction of the majority.

Employees generally considered occupational pensions to be a positive aspect of their 'package' but few had a clear idea of what would distinguish between different types of occupational scheme. For example, a good number of members of schemes without an employer contribution were not aware/ had not considered the possibility that other employers might make an employer contribution to their pension scheme (and vice versa).

Scheme members often appeared just to have made the decision to join when they considered that their circumstances made this possible and did not seem to have spent any time weighing up whether or not the scheme was a good one.

> *'I don't understand how it works that well – I'm just one of those people that goes along with things.'*
>
> Female employee of large publishing company, aged 31, member of defined benefit scheme

The exceptions to this were some (generally older) members of defined benefit schemes who felt that their employer's scheme was particularly good. Beyond this there were no differences in opinion by demographic characteristics.

> *'I'd be unlikely to get a final salary pension scheme elsewhere and that is a significant factor in keeping people like me in the firm, I think it is the one thing people don't want to lose.'*
>
> Female employee of large utilities organisation, aged 38, member of a defined benefit scheme

Some scheme members had a nagging suspicion that their pension would not be adequate but had not investigated whether or not this would be the case. However, these suspicions were not connected to the type of pension scheme that they were a member of (or even the level of employer contribution). These employees were almost putting off investigating because they did not feel that they would have the financial resources available to correct the situation if their pension turned out to be inadequate. Some are simply hoping that they will not need to depend entirely on their pension for their income in retirement.

For example, an employee in a small manufacturing firm joined the company defined contribution scheme when he came to the organisation. He has never made a contribution to the scheme (and in fact didn't know it was possible to do so). He is unsure about whether his scheme will provide for him adequately in retirement and in fact *'doesn't have a clue'* how much the scheme is worth. He is currently 54. He stated that he *'keeps meaning to find out'*.

'Pensions are rather confusing – it's money that I'm investing in the stock market. I'm concerned that it won't be enough in the long run. I'll keep my eye on it …but I don't expect to rely on my pension. In the long run I hope to get on the housing ladder and buy a property to let as a retirement fund.'

Female employee of a small manufacturing company, aged 30, member of GPP with an employer contribution.

'It probably won't be adequate, you hope for more than you'll actually get. I suspect it won't be enough, you have to hope that you will have a big house to sell and be able to buy a smaller one.'

Female employee of a large utilities company, aged 30, member of a defined benefit scheme

Levels of understanding about the way in which final pensions are calculated were quite low. Many found such aspects of schemes confusing and were happy to trust their employer to make decisions about the most appropriate type of scheme. Many of these employees were making contributions to their scheme in blind faith that it would leave them with a reasonable pension at the end of the day. This was particularly true of some of the younger employees – some of the older employees interviewed stated that they had become more aware of the likely value of their pension as they got closer to retirement.

For example, one male member of a GPP scheme (aged 32) stated that he knew there were various risk categories of investment but could not recall what he had decided upon. He trusts his Financial Director to look after his investment and does not really want to get any more information as he does not think that he would read it.

Only one or two felt that their employers should keep them better informed about the way in which the pension scheme is operated and how investment decisions are made. This tended to reflect a general lack of interest in pension issues (and a lack of detailed understanding of information received to date) rather than a feeling of holding a full understanding of how the scheme operates. The few who would have liked more information tended to be employees who were more knowledgeable about pensions and were more likely to have obtained more details (or tried to get a better understanding) about the type of pension scheme on offer before joining. The rest were happy to leave this sort of detail to their employer to manage on their behalf (although some would like more regular/concrete communication about the value of their fund as discussed in Section 6.5).

3 What makes a good pension?

This section of the report looks at employer views on the hierarchy of pension types and how they felt that the pension scheme(s) offered by their organisation compared with their competitors. We also look at employee opinions of how their employer's pension scheme matched up to competitors, their understanding of the type of scheme offered by their employer and their opinions on whether or not their employer's scheme was a 'good' one. We go on to look more generally at the factors that attracted employees to join pension schemes.

3.1 The hierarchy of pension types (employer view)

Employers considered defined benefit schemes to be superior to all other types of provision in terms of the benefits that they offer staff. There was a general view that no other type of pension provision was likely to provide the same level of benefit for employees. Additionally, employers felt that no other type of provision could provide the same level of guarantee of a 'reasonable' pension. However, they were also deemed to be the type of provision that placed the greatest burden on employers – in terms of absolute cost, risk exposure and, to a lesser extent, the complexity (and hence costs) of administration.

Defined benefit schemes were widely viewed as a 'dying species'. None of the employers interviewed who had set up new provision in the last two to three years had seriously considered a defined benefit arrangement.

> *'No one in their right mind is going down that route at the moment.'*
>
> Medium-sized services organisation

A large independent school which was reviewing options for replacing its defined contribution scheme for administrative staff said that the IFA had obtained details of a final salary scheme but this was not affordable. *'The obvious advice was that nobody on the planet is moving to this type of scheme.'*

Beyond the view of defined benefit schemes as the 'gold standard', employers mostly considered how 'good' a benefit a scheme was to be determined by the level of employer contribution. Hence, in essence, GPP schemes, defined contribution schemes, payments into personal pensions and Stakeholder schemes to which the employer contributes were seen to be equally beneficial to employees.

Some employers felt that GPP or personal pension arrangements were more suited to modern working practices because they were readily portable – although one or two also acknowledged that this then reduced the value of the scheme for retention purposes. However, one small engineering company who contributed to employees' personal pensions, did so in the belief that contributing to a highly flexible scheme demonstrated a commitment to staff which would encourage loyalty, particularly within a sector where competitive pension provision was rare.

> *'I think you have a commitment to the employee and I think it also becomes a benefit, you are buying loyalty.'*
>
> Small engineering company

Conversely, a small number of employers commented that defined contribution schemes were perhaps better than GPPs, personal pension arrangements or Stakeholders from an employer perspective because the vesting period allows some costs to be recuperated if employees left soon after joining.

Some (usually small or medium sized) employers commented that they had veered away from defined contribution schemes because they felt that these schemes placed a heavy administration burden on the employer. To a lesser extent they also mentioned the necessity to have trustees (and the time costs involved in allowing trustees to meet their obligations) coloured their opinions on defined contribution schemes.

3.2 Employer comparison of pension provision with competitors

The majority of employers felt the pension arrangement offered by their organisation was at least comparable with those of their main competitors. In most cases this assessment was based on their own knowledge of the competition or the view of other senior staff. Only a few (larger) employers had sought to obtain objective evidence on pay and benefit levels through methods such as subscribing to industry reports. Some did not have any idea how their provision compared with their competitors but did not think this was particularly relevant since they could not imagine that (potential) employees would be making this comparison.

Those organisations who felt that their own provision was less generous than their competitors felt that the pension offered was unimportant to the majority of their staff and hence their position in relation to their competitors was irrelevant in terms of recruiting or retaining staff.

Some of those with defined benefit schemes that were still open to new members recognised that their pension scheme was now a 'point of difference' in the marketplace as a result of competitors closing their defined benefit schemes. Most of these acknowledged that they had not yet attempted to capitalise on this position although a few were planning to try to do so in the near future by making more effort to highlight the pension available in job adverts and at the interview stage.

3.3 Employee view of how good the scheme is

Employees who were members of schemes divided fairly equally between those who had a good understanding of how their pension scheme operated, some knowledge or a poor understanding. Those with a good understanding were aware of the extent of both their own and their employer's contribution levels, how their final pension would be calculated and had a broad idea of how the fund was invested. The level of understanding of scheme operation was slightly higher among those who were members of defined-benefit schemes than among members of other schemes (and these individuals appeared to have a greater sense of 'belonging' to the scheme than those who were members of other schemes). Understanding tended to be higher among those in managerial/ professional categories but, beyond this, there were no apparent differences in level of understanding by demographic characteristics of scheme members.

Understanding was much lower among non-members – many of those who were eligible to join a scheme but had not done so had a poor understanding (or no understanding at all) of the way in which the scheme that they were eligible to join operated. Levels of understanding generally seemed to be higher among male employees than among female employees.

> *'I don't understand pensions generally...'*
>
> Female employees of medium-sized care organisation (aged 40), non-member of Stakeholder scheme with no employer contribution

Comparing employees' own assessments with researcher assessments on the basis of the information that the individual was able to supply about the pensions shows that employees were generally quite accurate in their own assessment of how much (or how little) they knew about their employer's pension scheme (and pensions more generally).

Variation in the levels of understanding about their employer's pension provision meant that it was difficult for employees to comment on how they felt that the provision made by their organisation compared to other similar organisations. Generally speaking, this was not something that employees had thought about in any depth since few had considered weighing up employment opportunities on the basis of their pension provision. A few older members of defined benefit schemes stated that they felt that their employer's pension was particularly good. Most others seemed to think that their employer's provision was about average (regardless of the type of scheme or contribution levels) – some stated explicitly that they felt that the only employers who were probably providing better schemes were those in the public sector that they felt had 'special arrangements'.

Similarly, because most considered their employer's provision to be standard or average, the type of provision on offer did not impact greatly on how employees viewed the organisation that they work for.

In no cases did employees feel negatively about their employer because of the **type** of pension provision that they offered (although changes to schemes prompted a few isolated negative feelings as explored in Chapter 9). In most cases, provision of employee benefits generally made employees feel more positively about their employer and the pension provision was seen to form one part of the overall employee benefits package. For many employees (and particularly those in younger age brackets) it was far from the most important aspect of this package, with some individuals citing the holiday allowance, private medical insurance and sickness pay as more important contributors to their positive view of their employer. Where a defined benefit scheme was offered this seemed to have a greater positive influence on the way in which members viewed their employer than was the case for other types of provision.

3.4 What scheme features encourage scheme membership?

When asked about their reasons for joining their employer's pension scheme, most employees gave a range of personal reasons why the particular time at which they chose to join was appropriate for them. Primarily, these were about shifts in financial circumstances making saving for a pension affordable. However, this often coincided with changes in personal circumstances such as having got married or had children, having taken on a mortgage or having received a promotion – generally these reasons were about feeling 'settled' and hence having the time and inclination to look towards the future.

Hence, it would seem in many cases, that it was not features of the individual scheme that attracted people to join but rather that their financial (and other) circumstances had meant that saving for retirement became a possibility/a priority for them. The fact that an opportunity to join a pension scheme had coincided with an advantageous set of personal or financial circumstances had led them to join rather than any particular features of the scheme on offer attracting them to join.

That said, some members of schemes with an employer contribution stated that they had decided to join because there was an employer contribution available. For some this had served the purpose of speeding up their decision to join because they did not want to 'miss out' on taking advantage of any employer contributions. These employees felt that they would be unwise not to join the scheme because they would be missing out on benefiting from money that they were entitled to.

> *'Ultimately having a pension is a good way of saving to have a good time when you retire. You would be stupid to miss out on a matched contribution because you are gaining extra money by taking advantage of it.'*
>
> Male employee of small distribution company, aged 28

> *'The employer contribution was very important. They put in six per cent to make it ten per cent - there is no way that I could have afforded to contribute ten per cent on my own.'*
>
> Female employee of independent school, aged 56

> *'I was advised to leave my British Coal pension and take out a private pension for the flexibility. When I joined this company though, I realised that if I stuck with the private pension then I would be missing out on a benefit – being in the company scheme means double contributions.'*
>
> Male employee of small distribution company, aged 36

> *'If you decide not to join then you are effectively taking a three per cent pay cut.'*
>
> Male employee of small engineering company

However, this was not necessarily the majority view – many did not seem to think of employer contributions as something that they had an entitlement to in this way (hence viewing a pension more as something that costs them money rather than a way to increase the value that they obtained from their employer).

Some members were not sure of the level of employer contribution that was made to their pension. While it was more common for members of defined benefit schemes to be unsure of the level of employer contribution, several of those in defined contribution schemes with a matched employer contribution (i.e. where the employee had some control over the employer contribution) were also unsure:

For example, a female member of a defined benefit scheme in a large publishing company, aged 53, said that she just joined the pension scheme because she wanted the security of having a pension. She was not sure about the level of employer contribution but stated that she would have joined regardless of whether or not there was one.

Another female member of a GPP in a medium sized manufacturing company (aged 28) thinks that there is a matched contribution but is unsure – she stated that the contribution was not a large factor in her decision to join the scheme.

The fact that the defined benefit schemes covered by this research had very high participation rates appeared to be self-perpetuating. Some members of these schemes stated that they had decided to join simply because many of their colleagues were also members (leading them to believe that joining was a good idea). The fact that everyone else seemed to be joining was not given as a reason for joining any of the other scheme types covered by the research.

> *'I joined because that was what everyone else was doing, I saw no reason not to join. I have no regrets.'*
>
> Male employee of large utilities company, aged 53, member of defined benefit scheme

Other reasons for joining the company pension scheme mentioned by one or two individuals each were:

- pressure from parents (employees who were relatively young when they joined);
- needing life assurance and hence joining the pension scheme seemed a good way of 'killing two birds with one stone';
- having been a member of a previous employer's scheme and wanting to continue saving.

> *'I just started when my parents advised me to do so. You don't think much about the future when you are 26. In those days pensions were a fixed thing and my parents advised me to join.'*
>
> Female employee of small distribution company, aged 41

3.5 Reasons for deciding not to join pension scheme

Reflecting the reasons given for joining pension schemes, the reasons given for not joining mostly concerned personal or financial circumstances rather than features of the pension scheme itself.

Hence some non-members stated that they had chosen not to join the company pension scheme (yet) because they currently had financial out-goings that would make it difficult for them to find money for contributions (for example, because they were buying a house, had just had children – reasons that were also given for deciding to join a scheme – or were in the middle of divorce proceedings). Only a small number of these employees seemed to think that they would never be able to afford to contribute to a pension scheme – most envisaged their circumstances changing in the future to allow them to start a pension.

One female employee (aged 37) of a small catering company who had chosen not to join a Stakeholder with no employer contribution stated that she could not afford to put money into a pension. *'We are on family credit and don't have any extra money to put into a pension, we'd have to put so much in to get something out that we haven't got a hope.'* She felt that, in any case, pensions were not a good investment and that maybe she would be better off investing in property.

> *'I've just taken out a mortgage so I think that I will hold back on starting a pension until my out-goings have been determined.'*
>
> Male employee of a medium-sized business services company, aged 28 (eligible to join GPP scheme with an employer contribution)

Others stated that they felt that they were too old for it to be possible to build up a 'reasonable' pension in their remaining working years (even though some with this view were anticipating working for another 15-20 years). These individuals felt that it made more sense for them to rely on the state pension and perhaps to put money into some other form of investment. Some stated that they were unsure about how much longer they intended to stay at their current company and hence were not sure about whether or not it would make sense for them to join.

> *'I just don't earn very much so the benefits obtained just wouldn't be a viable proposition.'*
>
> Female employee of independent school, aged 55, eligible for GPP scheme with an employer contribution)

A few (mostly younger) employees stated that they did intend to join the scheme at some stage but simply had not got round to it. These employees did not consider setting up a pension to be a priority at the moment and seemed to feel that delaying establishing a pension for a few years would not ultimately make much difference to the pension that they would receive on retirement.

> *'There is no particular reasons why I haven't joined, I just didn't do anything about it when I heard about it. I ignored it. I got some pension scheme information but I did not read it in detail.'*
>
> Male employee of large water company, aged 32, eligible for final salary scheme

> *'It's been offered to me but I've been dragging my feet. It's my own fault but I am thinking of starting a personal pension now. It has not been a priority and I'm basically lazy.'*
>
> Male employee of a small manufacturing company, aged 29, eligible for a personal pension with an employer contribution

> *'No particular reason, I just didn't do anything about it. I ignored it. I had some pension scheme information but I did not read it in detail.'*
>
> Male employee of a large utilities company, aged 32, eligible for a defined benefit scheme

Some non-members stated that they had chosen not to join their employer's scheme because they already had either a personal pension or a pension from a previous employer that they felt would provide for them in retirement. Most of these employees were aged over 40. Interestingly, some of these individuals had chosen to continue with a personal pension (into which their employer did not make a contribution) rather than join a scheme with an employer contribution. A few others had chosen not to join because they were relying on their partner's pension to provide for them on retirement (these employees were all female).

However some non-members had chosen not to join their employer's pension scheme because they felt that they did not understand enough about it. Generally, these employees were not able to give examples of particular features of the scheme that they wanted to know more about – rather they were looking for reassurance (from someone other than their employer) that their employer's scheme was the best option available to them. Most of these individuals did not seem to have taken any steps to obtain this reassurance – again joining a pension scheme was not particularly high on their list of current priorities.

For example, a female employee of a medium-sized manufacturing company (aged 29) stated that the was going to join the company's Stakeholder scheme but she thought that Stakeholder schemes were run by the Government so she was surprised that there was a private sector company involved. When she heard this she became more dubious and decided to wait until she knew more (but had not done anything about this since).

A small number of non-members stated that they had chosen not to join their employer's scheme because they felt that pensions had become a risky investment in the light of recent stock market performances.

> *'I have not looked into it fully. I have been thinking I am too young but my girlfriend says I must join. I see it as a lottery – like investing in shares. In the news recently there have been so many people who are losing money in shares. You think you are investing for the future but with big name firms such as Nokia and BT wiping off billions from people's pensions it seems better to invest in ISAs at a fixed amount.'*
>
> Male employee of large water company, aged 23, eligible for final salary scheme

One young (aged 29) male employee of a medium-sized business services organisation stated that he generally felt *'apathetic towards pensions'*. He had concerns about tying up money with no guarantee of what the returns could be. He admitted to not having a great deal of understanding about pensions but felt that he might be better off investing in property as an alternative.

'The problem is that your investment might be fine for 30 or 40 years and then it could all crash'. This employee thinks, in any case, that he would not be able to afford contributions as he is currently buying a flat and this is taking all his money. He is 23 and eligible to join a Stakeholder scheme with no employer contribution run by a small consulting firm.

Only a very small number of current non-members mentioned that they had chosen not to join their employer's scheme because there was no employer contribution and hence '*nothing in it for them*'. These were the only employees who gave a reason for not joining that related to the quality of the scheme on offer.

Generally speaking, the reasons given by employees as reasons both for joining and not joining their employer's pension scheme supported the view held by most employers that the type of scheme provided does not matter for most employees (if the aim is to have a positive impact on employee recruitment, retention and/or morale) because employees do not have a wide knowledge of the different types of scheme that are available. Most employees had made their choice about joining or not joining their pension scheme on the basis of their own circumstances rather than the quality of the scheme available. Even with defined benefit schemes, it did not seem to be factors around the levels of benefit potentially available that attracted members so much as a sense of guilt brought about by seeing others join (because often employees 'knew' that they should be doing something about a pension but hadn't got round to it) and also (as explored later) because the opportunity to join was presented as a 'one-off' decision rather than something that can be delayed until later.

4 How important are pensions to employees?

In this chapter we look at the opinions of employers on the extent to which their employees valued pensions and the extent to which employers were concerned about these opinions (and the way in which they translated into levels of take-up). We then look at what employees said about the way in which they viewed pensions and the role of a pension scheme in their decisions to join or stay with an employer. We also look at the extent to which non-members were using other savings vehicles, instead of a pension, to make provision for retirement.

4.1 Do employers feel that employees care about pensions?

A small number of companies that offered defined benefit schemes strongly believed that **all** staff cared about pensions and were very positive about the schemes they offered.

> *'Staff view the scheme as probably one of the last vestiges of employee perks that they have got. It's absolutely seen as a perk, one of the best there is. If you look at the world, to maintain a final salary scheme is a huge bonus, to do your own thing you are talking about 25-30% of your income for the whole of your life to match the equivalent of what it is paying you.'*
>
> Large not-for-profit organisation

> *'In feedback from the staff it is considered to be one of the most attractive parts of the package. A final salary scheme based on 60ths, with an employee contribution of just three per cent is viewed as quite generous.'*
>
> Large energy company

However the majority of employers felt that it was usually only the older and more senior staff who cared much about the type of pension offered. A few others mentioned that it was also important for some of the professional categories that they employed (such as engineers or accountants). Employers with defined benefit schemes felt that such schemes were an attractive benefit for these grades of staff. One company had effectively closed a previously all-inclusive defined benefit scheme to new members but retained an option to add new members on a discretionary basis if it was felt to aid recruitment of key (senior) staff.

Nearly all employers agreed that staff under the age of about 30 were rarely interested in the type of pension scheme offered (and often even whether or not there was a pension scheme available). The common view was that retirement seems a long way off to these staff and that their key impetus was to climb the salary ladder. While many wished otherwise, employers tended to feel that a pension provision had very little impact on the employment decisions made by these younger staff. With this group, the fact that they often did not envisage staying with an employer for many years was seen to impact on the interest that they showed in occupational pension schemes.

An example of this point of view was a small public relations agency who felt that bonuses were a much more effective way of rewarding and trying to retain its mainly young staff.

Others included two large employers working in the media and entertainment sector. It was firmly believed that pensions were of little importance to the majority of younger staff, and played minimal roles in recruitment or retention of staff. The main recruitment driver for younger staff was the attraction of working in the industry sector, and pensions were not seen to be an issue of much importance.

'People come to companies like ours because they want to work in the industry. Most organisations offer a pension scheme these days .... so its not a defining point. At the younger end I don't think anybody would think about their pension before leaving, they won't be thinking of staying to accrue pensionable service, certainly not at the younger end.'

Large services company

'Because it is a contributory pension and the profile of our employees is very young, getting people interested is difficult.'

Large services company

'I would say that for all the younger staff it is of lesser importance, people joining in their 20s up to their mid-30s. Pensions seem to bite for most people in mid-careers, round about 40 to 45, when they all begin to start thinking. Then when they hit their 50s it becomes of critical importance and from there on in it's a big issue.'

Large services company

In addition, employers felt that staff in the lower-paid occupations were rarely interested in pensions. In several of the organisations interviewed, these were staff paid on an hourly rate in occupations where turnover was particularly high. In some cases they included contract workers. Employers felt that sometimes the individuals working in these occupations were often not the main income earners for their households. There was a feeling in some organisations that these staff were perceived as becoming increasingly distant from the 'core' of the company in terms of attitudes and working practices. Several of those who employed such staff acknowledged that there would be considerable business advantage to be gained from improving retention rates among these staff but there was a consensus that a (better) pension scheme would not be a successful way of achieving this. The view was that these staff were only motivated by the rate of pay, with some employers giving examples of staff moving jobs for very small increases in rates of pay. Some employers felt that these staff often '*needed every penny that they earned to live'* and '*could not afford the 'luxury' of a pension even if they wanted it'*

> *'They are not that bothered about pensions and whether they have access to one or not because they do not live like that. They live about what they are going to get at the end of the month and how they are going to live on that.'*
>
> Large care organisation

Employers perceived the employees in mid-ranking roles and/or in the middle-age brackets to fall between these two polar positions. The general opinion was that these staff cared a little about pensions but usually just to the extent of wanting to be sure that there was some form of pension scheme in place rather than caring particularly about the exact nature of that provision. Some employers were concerned that some of the less knowledgeable of these employees felt that so long as they had 'a pension' then they would be catered for in retirement without considering the impact of (their) contribution levels. This was confirmed from interviews with employees (see Section 5.5).

As is mentioned in Chapter 2, this impression of the varying levels of interest in pensions among employees by age and occupational grade had started to make employers think about (further) targeting their pension provision towards those who were likely to value it. Many companies already operated some form of tiered system in terms of either contribution levels or even scheme type and there was a feeling that the 'tiers' may well be further accentuated in the future. The impact of this trend is likely to be that employers are likely to provide least pension cover for those who they find currently have the lowest uptake of pensions (particularly the lower paid occupations). Hence this could leave only the lowest levels of provision being available to those who are least disposed to provide for themselves in retirement.

4.2 Impact of negative press (employer view)

Most employers felt that recent media coverage (for example around the health of some pension schemes and the Equitable Life crisis) had had some form of impact on the way in which their employees think about pensions but they were divided in terms of what exactly they felt that impact had been.

Some felt that this press coverage had served as another 'excuse' for (particularly younger) members of staff to postpone making the decision to set up a pension. A slightly smaller number felt that there had been a positive impact in terms of raising awareness of the importance of pensions among those who had a middling level of interest in pensions issues (mostly those in middle-age brackets or middle-ranking roles). These employers felt that the volume of recent media coverage about pensions had served to bring pension issues closer to the front of these employees' minds and to make them value it more (even though coverage had largely been negative).

One large (1000+ employees) employer, who had recently closed a final salary scheme to new members, believed that following this action, its staff now felt much more involved in all the media coverage surrounding pensions and hence paid it greater attention.

> *'Closing the scheme to new entrants was a fairly major decision in terms of the employee's perception of the future of the scheme. They suddenly began to feel that they weren't isolated from all the stories appearing in the newspapers.'*
>
> Large utility company

4.3 Do employers care about the level of take-up of pensions?

The extent to which employers cared about the take-up of their pension schemes depended largely on the attitudes of senior management. Where the senior management had a 'paternalistic' outlook on their relationship with their employees then they were keen to see all employees taking advantage of the pension scheme offered. Sometimes the root of this view was that they themselves had always been part of a pension scheme and were encouraged to save for retirement soon after they began work (and felt that this has stood them in good stead for the future). In other organisations, which senior managers felt either to be too large or under too much financial pressure to sustain a paternalistic perspective, there was less interest in the level of take-up.

Some examples of attempts to boost take-up in organisations with more paternalistic attitudes include:

> A medium sized engineering company where the Finance Director personally chased as many staff as possible to join and, even where the employees had not joined immediately (mainly because they had not submitted their application forms promptly) contributions were backdated.

> The bursar of a large independent school ensured that an employee's contract was changed so that they were paid monthly rather than weekly, so that they would be eligible to join the pension scheme.

> The Controller of Benefits in a large services company would unofficially walk around and talk to non-members to remind them that they were eligible to join the scheme.

> A large construction company was keen to improve take-up among its more senior staff to improve retention rates. They were now providing more information about the scheme to employees, and the administrator was chasing those who requested information but did not join. They had also put in place an arrangement whereby if people did not join the pension scheme, the extent of employer life cover dropped from four times to one times their salary, which they also thought might boost take-up rates, but so far had not.

In some organisations that were continuing to run defined benefit schemes senior management were keen to see a high level of take-up simply because, as members themselves, they had a vested interest in the continuation of the scheme and that, in turn, relies on the recruitment of new (young) members.

Organisations that employed dedicated pension staff (which tended to be those running defined benefit or defined contribution occupational schemes) were generally more interested in the level of take-up of pension schemes than those where pensions issues were subsumed into either the human resources or the finance role. Dedicated pensions staff tended to view encouraging pension scheme take-up as a fundamental part of their role.

It was also the case that employers who felt that their pension scheme had recruitment and retention benefits were more concerned about the level of take-up. Although even in these organisations it was mostly the level of take-up among certain sub-groups of their employees that was of interest rather than take-up *per se*. Furthermore, some members of senior management in these organisations felt that it was perhaps counter-intuitive to encourage take-up with the hope of improving staff retention (feeling that if employees cared sufficiently about the scheme for it to have a retention value then they would have made the decision to join without further encouragement/reminders).

Some employers felt that it was not in their organisation's interest to seek to increase the level of the take-up of their pension schemes since a greater number of members would increase their costs at a time when they were under pressure to reduce them. A wide range of organisations took this view from a large food services company to a small care home and a medium-sized charity.

In other cases, employers did not particularly aim to increase the take-up of their schemes since the majority of their staff were in low-paid roles and they did not feel that these staff could be expected to contribute to a pension. Employers felt some level of embarrassment around promoting their pension scheme to these staff. As discussed earlier, they felt these employees could not afford the 'luxury' of a pension.

Similarly some employers mentioned that they would be embarrassed to seek to promote (certain aspects of) their pension provision because they did not consider it to be a particularly valuable benefit. This was often the attitude surrounding pension schemes with no employer contributions (which were mainly Stakeholder schemes).

4.4 How important are pensions to employees?

For many non-members of pension schemes, pensions were a nagging concern – it was something that they felt they should get sorted out but not something that they had much personal interest in. Those who had joined the scheme had mostly assuaged this concern by joining. They were not particularly interested in the workings of the scheme on offer and hence were largely unaware of the level of contributions made to the scheme, how the value of their fund is calculated and the implications that this might have for them in retirement. Most seemed to draw some comfort from the fact that they were members of a scheme but had not thought about the scheme a great deal since joining. The exceptions to this were some older and more knowledgeable employees who were within a few years of retirement and who displayed greater interest in the workings of their pension scheme (and hence had made the effort to find out and understand more).

> *'My pension is simply something I routinely pay into, it's not very important to me, it's just one of those things you do every month.'*
>
> Male employee of large media company, aged 36, has personal pension with no employer contribution (but is eligible for a GPP with an employer contribution)

> *'I don't know anything about my pension but I really should do and I plan to find out…I think it is related to my final salary when I retire.'*
>
> Female employee of large care organisation, aged 55, member of defined benefit scheme

> *'They take a proportion of your wage each month and I think that XXX (employer) add to that. It is so complicated, you know in this economic climate that you need to have a pension but it is all so complicated.'*
>
> Female employee of a large services organisation, aged 43, member of a defined contribution scheme

Hence it does seem that, for the majority of employees, simply the fact that there was a pension available for when they chose to join was what was important rather than the type of scheme on offer (because they largely did not understand/were not interested in the differences between schemes). This was slightly less true for employees in companies providing defined benefit schemes. Members of these schemes displayed a greater level of interest in them (and particularly whether the benefits generated by the scheme were likely to be changed in the near future) and attached a greater importance to their pension scheme in relation to salaries and other benefits. This seemed to be a result of a feeling that these schemes were particularly valuable (formed in part by recent press coverage and, for some, a recent increase in internal communication about their scheme).

Most employees stated that they were made aware of the pension scheme offered before they made the decision to join their company but hardly anyone felt that this played any role at all in their decision about whether or not to join the organisation. All those employees who said that the pension scheme played at least a minor part in their decision to join were working for firms providing a pension scheme with an employer contribution.

One female employee of a not-for-profit organisation providing a defined benefit scheme stated that she had been a member of a defined benefit scheme at her previous employer and when she was told that her current organisation also offered one (at the interview stage) this encouraged her to join. She described the pension provision as playing a large part in her decision to join. She is not aware of the detail of how final salary schemes work but believes them to be good schemes that pay out well on retirement.

However, despite the fact that pension provision did not play much of a part in decisions to join an organisation, some scheme members stated that they now viewed the pension offered by their employer as a major part of their overall package. Most of these employees were working for organisations providing defined benefit schemes, were older (40+ years) and had a reasonable length of service behind them. Most of these individuals stated that the pension scheme offered had made them more likely to stay with their current employer. Male employees were slightly more likely to feel that their membership of the scheme had a retention impact than their female counterparts.

One female employee of a large media company stated that when she joined in 1978, the pension scheme played no part in her decision to join. However, once she had completed around 10 years of service, the scheme offered (a defined benefit scheme) became more important to her. She now feels that she will remain with the organisation until she retires.

> *‘You’d have to have second thoughts about leaving a company where you were a member of the final salary scheme…..I don’t think that many employers are offering final salary pensions so it would probably not be lucrative to move on.’*
>
> Male employee of large water company, aged 47, member of final salary scheme

Few others felt that their membership of the company pension scheme had any impact on their likelihood to stay with the organisation.

> *‘It is a good scheme but it would not mean that it would keep me here because loads of other companies offer good schemes at the end of the day.’*
>
> Female employee of large manufacturing company, aged 30, member of defined benefit scheme

The only exceptions to this were a few members of defined contribution schemes who stated that they would probably remain with the employer at least until the vesting period was up. Generally speaking there was not a very high level of awareness of vesting periods among those employees affected. Around half knew or expected that there was some form of 'tie-in' with their pension, some of the rest were shocked that this was a possibility.

As well as those who said that they would be more likely to stay with their current employer because of the pension provision offered – a few (older) employees stated that, if they were moving jobs, they would probably only consider an employer who offered a scheme with an employer contribution.

For example, a male member (aged 40 years) of a large services firm's defined benefit scheme stated that he had decided not to take another position because the prospective firm did not have a defined benefit scheme

Some employees were confused about the portability of their scheme although most felt that if they weren't able to take their contributions with them then they would be able to freeze the scheme so that they would not lose any of the contributions that had been paid in. Those that were confused included both members of defined benefit and defined contribution schemes that overestimated the portability of their scheme and members of GPP schemes who underestimated their scheme's portability (believing that they would 'lose' some/part of their fund if they moved employers). The ease with which funds paid in could be transferred did not seem to cause employees much concern and a lack of portability was only mentioned as a reason for not joining a pension scheme by one non-member in a company with a defined benefit scheme. Even when employees mentioned that they had not joined a pension scheme because they were unsure how long they would remain with the employer, this decision tended to have come out of a view that it was not worth the hassle of getting a pension set up for (potentially) a very short period of time rather than a concern that any contributions paid in would be lost.

> *'I don't really know about if I could transfer my scheme – I haven't really read the small print on this.'*
>
> Male employee of medium-sized distribution company, aged 28, member of GPP

4.5 Are non-members making other plans for retirement?

A lack of interest and understanding about pensions would perhaps be of less concern if other planning for retirement is being made.

Some employees who had not joined the pension scheme offered by their employer had made no other plans for financing their retirement. These employees were more likely to be aged under 30 and to have (vague) plans to join a pension scheme at some point in the future. These employees did not have any firm idea about the sort of timeframe over which they would be likely to join – they tended to just state that they would join *'when they were older'* or *'when they could afford it'*. There was a general understanding that delaying joining a scheme would mean that they would have less money to 'take out' when they reached retirement but no reference was made to the relative weight of 'early' contributions in determining the value of the final fund.

Some were relying on the investment that they had made in their home to generate a retirement income.

Of the remainder, a number had some other form of pension – either a personal pension or a pension from a previous employer – or were relying on their partner's pension to generate income in retirement. The rest had some form of investment – in ISAs, annuities or other savings accounts. One was relying on inheriting money to finance retirement.

For example, one female employee of a large manufacturing company (aged 54) who was eligible for hybrid money purchase/final salary scheme stated that she chose to pay money into a savings account rather than start a company pension when she joined the organisation two years ago. She felt that she had enough investments already (2 frozen pensions, an ISA and an investment bond). She was not totally sure that she had made the right decision but she felt safer having her money in a savings account.

5 How important are contribution levels?

In this chapter we look at current levels of employer contributions to occupational pension schemes and how this varies across scheme types. We look at employers' opinions on the levels of contribution they were making to pension schemes and the rationale for differing levels of contribution in organisations where the level was not the same for all staff. We also look at the extent to which employers made a trade-off between pension contributions and wages. Then, from an employee perspective, we look at awareness of the level of contribution made by employers, the role that this contribution had on decisions about whether (or not) to join a scheme and the extent to which employees themselves traded off employer pension contributions against wages.

5.1 Levels of employer contribution to defined benefit schemes

Most of the employers interviewed who were running defined benefit schemes felt that the contributions that they were having to make to ensure the health of these schemes were extremely high – several pointed out that they would never have set up a scheme requiring this level of contribution. Typically, employers were making contributions equal to between 15 and 20 per cent of salaries into these schemes. In all cases, employees were contributing at a much lower level (typically between four and six per cent).

Figures on contribution rates from other surveys suggest that these levels are higher than average, but do confirm that employer contribution rates have been rising. The National Association of Pension Funds Annual Survey[5] for 2002 reports average employer contribution rates to private sector defined benefit schemes as 10.4% up from 9.2% in 2001, with long-term rates (unaffected by current surpluses) being 15.9% on average. The Association of Consulting Actuaries recent report on pension trends[6] provides similar findings. They report a rise in average employer contribution rates to DB schemes from 11.5% last year to 13.1% this year and these are expected to rise to 15.1% on average in the longer term.

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[5] National Association of Pension Funds Annual Survey 2002.

[6] Occupational Pensions Trends Research 2003 Pensions Reform: too little, too late? Association of Consulting Actuaries March 2003.

5.2 Levels of employer contribution to other schemes

Employers who were contributing to other types of schemes (defined contribution, GPP or Stakeholder schemes) were typically contributing between four and seven per cent of salaries, conditional on a matched employee contribution. There was a general consensus that a matched contribution of around five per cent of salary constituted average pension provision against which individual schemes could be benchmarked. Employers generally felt that in an era when employees were less likely to remain 'loyal' to an employer for their whole working lives, it was reasonable to expect equality between employer and employee contribution levels and hence matched contributions were commonplace.

Most employers who were running both a defined benefit scheme and some other form of scheme with an employer contribution were making a higher level of contribution into their defined benefit scheme. This was causing these employers some concern about the 'fairness' of these arrangements. This was prompting some of these employers to consider re-structuring their defined benefit schemes to encourage members to make a greater level of contribution (and in a couple of cases increasing the employer contribution to the scheme that was not defined benefit) in the hope of bringing the employer contributions to the defined benefit and other schemes closer together.

A few employers were making contributions of around ten per cent into schemes other than defined benefit arrangements **for some of their staff**. Typically this level of contribution was only available for senior/key management or professional staff and usually required the employees concerned to make a contribution at a lower level. These employers were generally looking to use their scheme to stand out in the recruitment market. One or two others were providing schemes which did not require an employee contribution for the same reason.

5.3 The link between pension contributions and wages (employer view)

Employers generally considered that employees did not make any form of link between salary levels and employer contributions to pension schemes. They did not feel that the vast majority of employees would be prepared to sacrifice a higher salary for a higher level of pension contribution. Those employers who considered their pension scheme to be 'above average' provision did not feel that they could afford to pay lower salaries than their competitors and still expect to recruit staff in any but the most senior positions (where the staff that they are looking to recruit are typically over 50).

A few had, in the past, considered increasing their contribution to pensions or making a contribution to a Stakeholder scheme (that currently had no employer contribution) as an alternative to a wage increase but had decided against as they felt either that:

- employees would rather have a pay increase; or
- a wage increase is preferable as a more 'neutral' option allowing employees to increase their own contributions if they wished to (hence limited any risk of dissatisfaction among those who did not have or value pensions).

For example, a small manufacturing company with a Stakeholder scheme considered increasing the employer contribution by one per cent and paying a smaller pay rise. They looked at the option because they realised the scheme '*would not generate enough on its own to provide an adequate pension*'. About half the employees were only contributing the minimum two per cent. The MD discussed this suggestion with fellow directors and they decided to provide a larger pay rise instead –

'we would have liked to enhance it (the employer contribution) but there are some people who struggle to make ends meet on what they earn anyway, so we felt they would prefer to have it in their pocket. It's their choice then. They can enhance their pension if they want or not'.

One or two employee representatives indicated that they favoured putting money into pensions as a trade-off with pay rises, although they recognised it would not benefit everyone (i.e. only scheme members). This view reflected the importance that they attached to pensions generally and the fact that they felt that employees needed some encouragement to save for retirement.

Many employers acknowledged that they would like to be able to persuade employees to consider pension contributions as part of their wages in the hope that this would increase satisfaction with their 'overall package' – particularly in the current economic climate when several employers have only been able to afford small wage increases in recent years.

It was this aspiration that was prompting one or two employers to try to move towards issuing employees with total benefits statements, demonstrating the monetary value of pension contributions (among other employee benefits). There were others that were interested in this type of approach but had not yet researched the options available in full and/or decided on a definite course of action.

One issue raised concerning the potential retention value of total benefits statements was that a key group that employers want to demonstrate the extent of the employer offer to are those who were not currently members of the pension scheme (particularly the low wage groups among whom staff turnover was high). To meet this objective, total benefits statements would have to demonstrate the value of pension contributions 'missed out on' through choosing not to join the scheme. This was seen to be difficult to produce as an absolute figure in cases when employer contributions depended on a matched employee contribution.

One "not-for-profit" employer who had recently increased the levels of contribution to a final salary scheme, and who expected to have to do so again within the next two years, had tried more directly to encourage employees to make the link between wages and pension contributions by using the fact that these increases had been made as a limiting factor in subsequent pay negotiations with employees. The employer argued that the increased contributions were part of the overall employee remuneration package.

When employers had reduced the pension benefits that they made available to employees, they had not usually increased the wages of those affected to compensate, largely because a key driver for altering pension benefits had been a need to cut or contain costs. We only found evidence of one organisation making any compensatory wage increase. This was a large care organisation, which was able to pay 'a very small' wage increase to staff when it closed its defined benefit scheme (and replaced it with a Stakeholder that had no employer contribution).

Discussions with one trade union representative in a large engineering company where they had decided to increase the employee contribution rates to a defined benefit scheme, revealed that if they had known about this intention when they negotiated the latest pay increase they might have pressed for higher salary increases.

5.4 How aware are employees of contribution rates?

Some employees who were members of schemes with an employer contribution were aware of the level of contribution made by their employer to their pension plan. Awareness was slightly lower among members of defined benefit schemes – indeed some members of these schemes were unsure about whether or not their employer made a contribution at all. Hence, although general awareness and understanding about their scheme tended to be higher among defined benefit scheme members, on this particular issue the knowledge of members of other types of schemes to which their employer contributed tended to be slightly better. All of those in schemes without an employer contribution were aware that their employer made no contribution.

Generally speaking, in companies where employer contributions to the company pension scheme were tiered according to seniority/type of occupation, those that were receiving a higher rate of contribution were aware that they received a level of benefit over and above other employees, while those on a lower rate were unaware that differential employer contributions were made. Hence it would seem that differential rates are not advertised widely to employees and are not used as part of an incentive to strive for promotion but more as a reward for achieving it.

As mentioned earlier, some members of schemes with an employer contribution stated spontaneously that they had decided to join because there was an employer contribution available. For some the fact that a contribution was available had served the purpose of speeding up their decision to join because they did not want to 'miss out' on taking advantage of any employer contributions. When prompted about the role of employer contributions, most members stated that the fact that their employer did make a contribution was at least quite important in their decision to join the scheme (even though they were unsure about the exact level of this contribution). These included:

In a medium-sized care organisation, four members of a GPP scheme with a five per cent employer contribution all stated that the employer contribution was an important factor in encouraging them to join the scheme. Two investigated the possibility of taking out a personal pension instead but decided upon the employer scheme because of the employer contribution.

A young (aged 30 years) female member of a Stakeholder scheme (with an employer contribution) joined the scheme as soon as she was eligible as '*it seemed the sensible thing to do as the firm contributed'.* She has recently become concerned about the fall in fund values, but felt she was still net better off than if she had taken out a personal pension, because of the employer contribution.

5.5 The link between pension contributions and wages (employee view)

Interviews with employees seemed to back up the view held by employers that most employees did not make a link between pension contributions and wages to the extent where they viewed a contribution made by their employer into their pension as a part of their salary package.

The fact that many employees were unsure about the level of employer contribution to their scheme demonstrates that pension scheme contributions were not considered as seriously as salary levels. Some employees in schemes other than defined benefit arrangements were unaware of the level of employer contribution into their scheme and hence were unaware of the total amount in their pension funds and how this would impact on their income in retirement. Some employees seemed to be paying into their schemes in blind faith that '*things would turn out OK in the end*'.

Awareness of employer contribution levels to defined benefit schemes was particularly low and hence, few members of these schemes could put a figure on the 'extra salary' that they were obtaining through pension scheme membership. This is not to say that these individuals did not value the pension scheme offered, just that they were unable to quantify its value in this way.

There were a small number of members of schemes other than defined benefit schemes who did speak in these terms stating that if they had chosen not to join their employer's scheme then they would have been missing out on X% of their salary. As discussed earlier (Section 3.5), these employees felt that failure to join the scheme would be equivalent to deciding not to accept money that they were entitled to. However, most did not think in this way and viewed joining a pension scheme more as something that was (or would if they joined) cost them money rather than a way of maximising the value of their salary.

Furthermore, a small number of employees had received a total benefits statement which had demonstrated to them the additional value that pension contributions make to their salary and seemed to have made them value their employer's contribution more.

5.6 Understanding of tax relief on pension contributions

Some (a large minority of) employees understood fully the implications of the tax relief that they receive on the contributions made to their pension scheme. Others had a vague idea that there was some form of tax benefit from being a member of a pension scheme but were unsure about how this worked. The remainder were unaware of any form of tax relief including nearly all non-members interviewed. Younger employees were also less likely to be aware of the tax relief on pension contributions.

A lack of awareness of pension tax relief means that this will not be factored into these employees' decisions about whether or not they can afford to make (a worthwhile level of) contributions to a pension.

6 How is information on pensions communicated?

This section of the report looks at the level and type of communication that employers sent to their employees and potential employees about pensions in job adverts, at the time that they joined the organisation and subsequently. We also look at how well employees felt that they had been able to understand this information, whether they had chosen to keep it and any additional information that they felt they should have received from their employer.

6.1 Details of pension schemes in job advertisements

To date, employers had not tended to make much of the pension schemes that they offer in job advertisements. Most tended just to state that a company pension scheme was available or perhaps that a competitive pension was offered. Little detail had been provided beyond this unless it had been specifically requested (except in the case of recruitment for very senior staff where, in any case, posts were rarely advertised in the same way). This is mostly because employers had not historically thought of their pension scheme as having any particular recruitment potential.

Some employers, particularly those with defined benefit schemes were now considering including a greater level of detail about the nature of their schemes in job advertisements. This was the result of a realisation that these pensions were now a point of difference and a hope that recent media coverage had made individuals more aware of the value of defined benefit schemes. Others, who felt that, historically, their pension scheme had been inferior to those (defined benefit) schemes offered by their competitors now felt their scheme was at least comparable with others in the marketplace and hence were also considering making more of it in job advertisements.

6.2 Information distributed on joining an employer

Most employers distributed a fairly glossy brochure about their pension scheme as part of their ‘welcome pack’ for new employees. This brochure was typically produced in-house with company branding in the case of defined benefit or defined contribution schemes. For Stakeholder or GPP schemes, the brochure distributed tended to be a standard one produced by the provider organisation without any employer branding.

A few had decided against 'overwhelming' employees with this level of detail initially and instead included a short paragraph about the pension scheme in an introductory letter providing details of where employees could obtain more information (usually the Pensions Manager for defined benefit or defined contribution schemes or the provider organisation in the case of Stakeholder or GPP schemes).

Some organisations waited until a probationary period had passed before distributing information about the pension scheme.

6.3 Communication after having joined

The level of communication that employees received after they had joined an organisation depended greatly on the employer's attitude towards take-up of the pension scheme – hence where the organisation was keen to improve levels of take-up, employees were likely to receive more reminders about the scheme than was the case in organisations that had less interest in the level of take-up.

In organisations that offered defined benefit schemes, it was common for some effort to be made to 'chase' those who had not joined the scheme as soon as they had become eligible to do so – this could be in the form of letters, telephone calls or offers of a face-to-face discussion. However, this 'chasing' period tended to be relatively short (a matter of a few months) and after this it was rare for employers to try to encourage non-members to join. In part this was because employers did not wish to create the impression that employees could join the scheme whenever they wanted (as usually the later the employee joined the more expensive it was for the employer).

Employers with defined benefit schemes often sent employees some form of newsletter (paper or electronic) which gave them information about the scheme on an ongoing basis.

With all other schemes that had an employer contribution, the extent of communication that employees were sent about the scheme after joining depended on the organisation's perspective on the balance between the positive impact on staff retention of having more members and the increased cost to the company. Most organisations interviewed were more concerned about the latter. Even for members of these schemes there tended to be little or no communication beyond the legal requirement.[7]

Organisations providing Stakeholder schemes that they did not contribute to made little attempt to promote these schemes once employees had joined the organisation. This was partly because they did not believe that there was much to 'sell' in these schemes and as such did not want to promote themselves as the provider of the scheme. There was also a feeling that as a Government initiative it was not necessarily the responsibility of the employer to promote the scheme. Furthermore, some employers stated that they were not keen to deal with the administration that would result from a greater number of members of their Stakeholder scheme. Where 'marketing' of Stakeholder schemes with no employer contribution did take place on an ongoing basis this tended to be led by the scheme provider rather than the employer organisation.

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7 Legislation requires that members of defined contribution, GPP, or Stakeholder schemes must receive an annual benefit statement showing their fund value and contributions paid. In addition, in future years members must receive a Statutory Money Purchase Illustration (SMPI) giving a projection of their pension in real (i.e. inflation adjusted) terms.

'We mention that the Stakeholder is available but we don't use it as a marketing tool because it is not. We do not contribute to it, so it is of no benefit to employees. They can walk into any Building Society or bank and set up their own standing order so it would be dishonest to try and market it as a benefit when really there is none there.'

Large care organisation

6.4 Employer concerns about promoting pension schemes

A few pension managers stated that they felt that they were in a very difficult position in terms of increasing take-up of their schemes. They felt frustrated that, while they were confident that their employer's scheme was a particularly good scheme, they were unable to tell other employees this for fear of being deemed to offer financial advice. One or two voiced a desire for some form of independent ranking system for pensions that they would be able to refer individuals to when trying to encourage them to join the scheme.

6.5 Employee understanding of information received about pensions

Nearly all scheme members recalled receiving a brochure about the pension scheme offered by their organisation at around the time that they joined. Most current non-members also recalled seeing a brochure. However, few (member or non-members) read this in much detail. The majority stated that they did attempt to read at least some of the information in these brochures but did not seem to have managed to read it all. Most were put off by the length of the document, feeling that it was simply too much information to absorb (particularly since most received it at the time when they had just started a new job and hence were dealing with a lot of other paperwork and change generally). Others found the language used in these booklets too technical to follow. Some expressly commented that they would have found a much shorter *'bullet-pointed'* document which laid out the key features of the scheme more accessible.

'I would like more plain English in the detail – it all seems so complicated.'

Female employee of small manufacturing company, aged 52, non-member but eligible for GPP with an employer contribution

'There is a lot of financial jargon in there which people do not understand – it would be better to have an explanation – it wouldn't have to be in any great detail – just in simple terms, in everyone's language.'

Female employee of small distribution company, aged 41, member of GPP

'They did give me lots of information at the outset and I received all these thick booklets but I didn't read much of them. I would really have preferred some sort of bullet-point summary document.'

Female employee of small services company, aged 35, member of GPP

'I think that pensions are a bit of a minefield. Not everything was clear in my meeting with Andy (IFA), I did not fully understand all that it entailed. I read the literature but not as fully as I should have and only about a month or so later. It is not the most stimulating of topics!'

Male member of a small business services company, aged 38, member of a GPP

'It has to be in the right terminology for people to relate to it. I expect that what I got is woefully inadequate for a lot of people. My understanding is not brilliant…. I think that there should be different levels of literature for different levels of people.'

Female member of a large utilities company, aged 38, member of a defined benefit scheme

Only a very small number of members have referred back to this brochure at any stage since joining the scheme. None of the current non-members interviewed had done so.

A smaller number of people had a face-to-face meeting with either an internal Pensions Manager or a representative of the provider organisation at around the time that they joined the organisation. Employees generally found this helpful (essentially because it meant that they did not need to wade through the brochure provided). All who stated that they had had this meeting were members of (or eligible for) schemes with an employer contribution.

Most scheme members recalled receiving annual statements of the value of their pension fund since joining. Some felt that these should be sent out on a more regular basis (say every six months) – employees who felt that this would be better tended to be those who had more worries about the effect that the current state of the stock market was having on their pension.

A few felt frustrated that their statements were unable to tell them the likely pension that they would receive. A small number of less financially-knowledgeable members felt disillusioned with investment in a pension because these statements seemed to fluctuate so much – these individuals did not have a good understanding of the way in which pensions were invested and were unsure as to why the value of their pension fund was not simply the sum of the contributions made plus a fixed rate of interest on top (this was the case even among a few members of defined benefit schemes).

A few employees stated that they would find these statements more helpful if they were to provide forecasts under different contribution scenarios so that they could gain a picture of the impact that increasing their contribution rate could have.

Apart from the employees who would have liked to see more regular statements, the only employees that would have liked to see pensions information on a more regular basis were members of defined benefit schemes who felt that their current scheme was under threat of closure and would have liked to receive reassurance from their employer that this is not the case. For example, one member of a final salary scheme in a small engineering company stated that she had been so concerned about the lack of information that she had received about the future of the defined benefit scheme (particularly in the light of media coverage about these schemes) that she had sought out an employee trustee to obtain reassurance that her scheme was not about to close down.

6.6 What information could persuade non-members to join?

Most employees who were not currently members of the pension scheme for which they were eligible stated that there was no further information that they needed in order to reach a decision about whether or not they should join the scheme. This reflected, as discussed earlier, that decisions about not joining schemes revolved mainly around personal circumstances rather than issues to do with the schemes themselves. Some of these had made a concrete decision not to join at all (because they felt they had sufficient investments for retirement elsewhere or because they could not afford to join until their personal circumstances changed). Others (generally younger employees) felt that pensions simply were not a priority for them at the moment and that they would revisit the information that they had when they had more time.

Those that said that they would like more information were essentially looking for one of two things:

- Reassurance that the scheme was a good one and that they would be well-advised to join it i.e. some sort of 'quality stamp' for the scheme. A few of these stated that they would be reassured if their employer were able to state unequivocally that they personally would be better off if they joined.
- A concrete figure for what they could expect to receive from the scheme as a final pension if they were to join.

> *'What would encourage me is a cast iron guarantee that money wouldn't disappear into a black hole. You can never believe what you are told and you cannot be confident that you will get out what you put in from what you hear on the news.'*
>
> Female employee of small catering company, aged mid-forties, non-member but eligible for Stakeholder without an employer contribution

> *'It's something that I just don't think about that much – it's not really been mentioned much to me. I'd like to be told more about it – such as what I could get out of it as a pension and what benefit it would be to me.'*
>
> Female employee of medium care organisation, aged 40, non-member but eligible for Stakeholder without an employer contribution

A small number of individuals (all aged over 50) stated that they did not need any more information from their employer but they were planning to speak to an Independent Financial Advisor before deciding on whether or not to join their employer's pension scheme. These few employees were hoping that an IFA would be able to give them a definitive answer on whether or not they should join the scheme.

Only a minority of current non-members stated that they had been re-invited to join the company pension scheme at any stage since they were initially invited (either when they joined the organisation or when they became eligible). A small number (of those who had not yet joined the scheme because they had not got round to it) stated that if they were re-prompted about the scheme then that would probably prompt them to fill in their application.

7 Changes taking place in pension schemes

This section briefly outlines the types of changes that were taking place in the pension provision offered by the employers interviewed for this study. We divide these changes into four broad categories:

- Re-evaluation and re-structuring of defined benefit schemes.
- Setting up other types of scheme (i.e. defined contribution, GPP or Stakeholder schemes with an employer contribution).
- Changing contribution rates to other types of scheme apart from defined benefit schemes.
- Setting up Stakeholder schemes with no employer contribution.

We look at each of these in turn.

7.1 Re-evaluation and re-structuring of defined benefit schemes

All employers with defined benefit schemes felt that these schemes were increasingly under pressure and that their long-term viability was fragile.

All these employers felt that the increasing cost of their scheme (as a result of falling annuity rates, an ageing workforce and poor stock market performance) was placing pressure on them to present the commercial case for holding on to the scheme in its current format. Often this was because their organisation was experiencing a more general drive to contain risk/exposure in the longer-term and that operating a defined benefit scheme (in the current economic climate) was seen to run contrary to this objective. Fuelling this desire to reduce or contain costs throughout the organisation were concerns over the recent performance of the stock market and concern over the implications of an ageing workforce.

Some felt that these costs had been highlighted by the introduction of the Minimum Funding Requirement. Similarly, a number of employers mentioned that the FRS17 reporting requirement on their financial accounts was raising questions among their shareholders (or potential creditors/ funders). One or two mentioned that additional complications were caused by the perceived mismatch between the picture generated by the MFR and FRS 17 (for example where the MFR had been met but the FRS17 reporting showed a deficit). MFR and FRS 17 were seen as factors that had served to foreground problems with defined benefit schemes rather than key drivers of change.

For example, a large care organisation looking to obtain external funding and hence felt that there was a need to reduce costs to a level comparable with other care organisations so that they would look an attractive proposition to potential lenders. The costs of their defined benefit scheme added significantly to their staff costs. The FRS requirement would only have made their costs look even greater and hence was a further prompt to close the scheme. '*When the transitional period for FRS 17 is over, deficits in pension funds will wipe out a lot of organisations' balance sheets and this is a primary reason why defined benefit schemes are closing around the country*'. Similarly for a large food services company, the FRS requirement was the '*final straw*'.

A few employers also mentioned the removal of Advance Corporation Tax (ACT) relief as another contributory factor to pressure on defined benefit schemes.

Only one to two schemes were already in serious deficit in terms of their Minimum Funding Requirement – largely considered by employers themselves to be a result of leaving too great a proportion of the fund in equities for too long a period (having decided not to switch out of equities when the stock market began to perform badly for fear that this would consolidate a deficit while remaining in equities left the possibility for the fund to recover) and/or taking contribution holidays (for too long) when the fund was in surplus. This included a medium-sized charity, which was seriously considering closing its scheme to new members and/or reducing future benefits, as they could not repair the deficit.

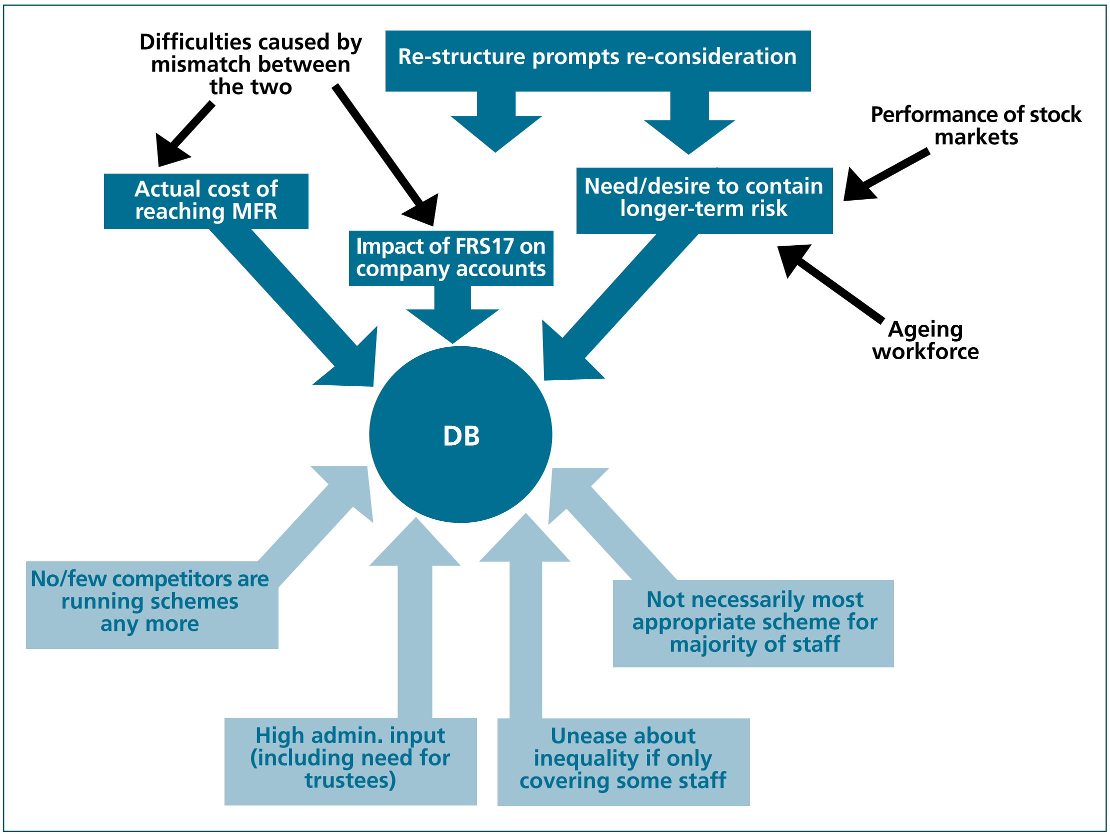
While a desire to cut or contain costs tended to be the key driver for change to defined benefit schemes, the actual timing of this re-consideration of their defined-benefit schemes was often prompted by an organisational re-structuring – either as a result of mergers and acquisition activity, geographical re-structuring or changes in product-market strategies. Examples included the merger of two professional organisations, who both closed their defined benefit schemes and replaced them with a single defined contribution scheme and a large media company who closed the defined benefit scheme of a company they acquired and transferred staff to a defined contribution scheme.

Once employers started to re-examine the case for retaining their defined benefit schemes in their current format, secondary drivers for change tended to be brought to light such as:

- the perception that few/no competitors were providing defined benefit schemes any more;
- the high level of administration required to run a defined benefit scheme (including the need to provide employee trustees and to allow them time off work to perform their duties). (It should be noted that employers recognised that this was also a disadvantage of defined contribution schemes and, as discussed later in this section, was one of the factors that encouraged them to set up GPP or Stakeholder schemes in preference to defined contribution schemes);
- unease about the inequality of pension provisions if the defined benefit scheme only covered certain categories of staff;
- a view that defined contribution schemes were not necessarily the most appropriate form of benefit for the majority of staff and that the needs of employees would be better served by a scheme that was more portable and allowed employees to choose how much they contributed.
- a lack of definitive evidence that the scheme had a positive impact for the employer in terms of either recruitment or retention.

Figure 7.1 illustrates the pressures that employers felt defined benefit schemes were suffering from.

Figure 7.1 Pressures on defined benefit schemes



The extent of these pressures on defined benefit schemes were seen to have left the employers covered by this research with two options – **closing** the scheme (mainly to new members) or **re-structuring** the benefits of the scheme.

7.2 Defined benefit schemes – closure or re-structuring

Faced with these two options, employers were more likely to have tried to re-structure the scheme if they had a more paternalistic perspective on the provision of pension schemes (and believed, as most employers did, that no other type of provision was likely to provide the same level of benefits for employees). Other factors that had encouraged employers to look towards re-structuring their scheme rather than closing it were:

- a high-level of take-up of the scheme to date;
- if most senior decision-makers were members;
- a high proportion of the workforce in professional or other clerical occupations;
- a belief in the recruitment or retention value of the scheme;
- if the (potential) MFR deficit was not too large.

Where employers had opted to re-structure their scheme, the most common action had been to increase contribution levels. Several felt that the costs to the employer had been increasing significantly over recent years and that they could no longer continue to meet all these increased costs themselves and needed an increase in the employee contribution to help safeguard the future of the scheme (as far as possible). These employers tended to feel that to ask employees for a higher contribution was reasonable in the light of the current disparity between the employer and the employee contribution (in some cases as high as ten per cent of salary) and the increasingly rarity of defined benefit pensions.

In some cases employers felt that they would not be able to ensure the long-term viability of their defined benefit schemes simply by increasing contribution levels. The other options that these employers had explored had been to change the accrual rate of their pension scheme (typically from 1/60ths to 1/80ths) or to make accrual dependent on the level of employee contribution, removing an early retirement option from the scheme or capping the joining age for the scheme.

For example, a large manufacturing company did not feel that just increasing the employee contributions was sufficient to ensure the long-term viability of the scheme. They therefore investigated other options including changing the accrual rate and removing the early retirement option. They decided that removing the early retirement option which allowed employees to retire up to three years early without penalty was the most effective option. One or two employers have given employees a choice of contribution rates based on different accrual rates.

Of the employers interviewed, those who had elected to close their defined benefit schemes had only done so for new members. The one exception to this was a case where the organisation had taken over a smaller company with a defined benefit scheme, decided that they did not want to take over the operation of this scheme and closed it down (setting up a mirror image of the main defined contribution scheme for these employees).

Closure to existing members was generally regarded as a much bigger step (and one that employers were keen to avoid if at all possible). Wholesale closure was thought to run the risk of a considerably greater negative reaction from employees.

One or two organisations that had effectively closed their defined benefit scheme to new members had left it open on a discretionary basis in case it proved useful in the recruitment of senior staff in the future. One or two also needed to retain this option to meet TUPE requirements.[8]

All bar one employer who had closed a defined benefit scheme had replaced it with another type of scheme to which they contributed (although the employer contribution was generally at a lower level). In the case of the organisation who replaced the defined benefit scheme with a scheme to which they did not contribute, this was a Stakeholder scheme.

[8] TUPE Regulations preserve employees' terms and conditions when a business or undertaking, or part of one, is transferred to a new employer. The Regulations have the effect that employees employed by the previous employer, when the undertaking changes hands, automatically become employees of the new employer on the same terms and conditions. Thus employees' continuity of employment is preserved, as are their terms and conditions of employment (including pension rights) under their contracts of employment.

7.3 Setting up other types of scheme (apart from a defined benefit scheme) with an employer contribution

For some of the organisations included in this research, the impetus to set up a new pension scheme had been a desire find a form of less costly provision following a decision to close a defined benefit scheme to new members. Others had had a scheme with Equitable Life and had needed to replace this with another scheme (often taking the opportunity to re-evaluate their entire pension provision at the same time). An example of this was a large independent school that had a defined contribution scheme with Equitable Life. They took the opportunity to review the type of pension they were providing and not simply to appoint a new provider. They opted to replace the defined contribution scheme with a Stakeholder scheme because there was less administration involved, no requirement to have trustees, the costs were cheaper and the increased portability would benefit employees. They (briefly) considered setting up a defined benefit scheme (the IFA had included this option) but this was dismissed as it was much too costly and 'out of date'. They also considered contributing to employees' personal pensions, but this was considered to involve too much administration.

> *'The paperwork and administration and the checking through the trustee operations for the DC scheme was extremely onerous and complicated, in fact frustratingly so because we are still having to have an annual audit of our frozen scheme because we still have members with money in there. We pay £500 a year for a firm of auditors to come and confirm that there have been no contributions and that the funds are as they were last year and produce a statement to this effect.'*
>
> Large (independent) school

In other cases, there had been a drive to streamline benefit provision after historical mergers and acquisitions activity had generated a variety of 'legacy' schemes. Some had found that their existing provision was not Stakeholder-compliant and, having set up an 'interim' Stakeholder scheme, were looking to simplify their provision into a scheme or set of schemes that were Stakeholder compliant. For example, a medium-sized service company had a GPP scheme, which was not Stakeholder compliant. Rather than have two schemes, they changed their scheme to a 'Stakeholder-friendly' GPP. This was a cheaper option than converting their existing GPP or running two schemes.

One or two employers had set up, or were looking to set up, a scheme for employees of a firm that their organisation had acquired so that they did not have to incorporate these employees into their (more generous) core schemes. An example of this was a large financial services company who had a defined benefit scheme but who had acquired a company that had a defined contribution scheme. Rather than take on the additional costs of transferring these employees into their defined benefit scheme, they set up a new defined contribution scheme purely for these staff (and any future employees of this organisation).

Most of these employers, who set up other types of scheme (apart from defined benefit schemes), felt that a GPP or Stakeholder scheme was preferable to a defined contribution scheme. Setting up a defined contribution scheme was not seriously considered by any of these employers. GPP or Stakeholder schemes were seen to have a lower administration cost to the employer but also to be more flexible and more readily portable for employees (and hence more appropriate to modern working practices). Only a few larger organisations had opted, or were likely to opt, for a defined contribution scheme.

Employers that had set up a new scheme to which they were contributing were offering matched contribution rates. Generally speaking, where these schemes had replaced defined benefit schemes, employer contribution rates into the new schemes were lower than had been the case into the previous defined benefit scheme *in recent years* but were perhaps closer to historical contribution levels. For example:

A large service organisation where recent contribution levels into its previous defined benefit scheme were five per cent for the employee and 15 per cent for the employer and contribution levels into the new defined contribution scheme were five per cent for the employee and ten per cent for the employer. This was at the top end of contribution levels for schemes other than defined benefit schemes researched.

A more typical example was a large food service company where contributions into a defined benefit scheme over the last few years were nine per cent for the employer (although very recently increased to 20 per cent) and five per cent for the employee and contributions to the new scheme were at a matched level of between three and six per cent (depending on the level picked by the employee).

A further example was of a medium-sized service firm where contribution rates to the defined benefit scheme for employees were between three and seven and a half per cent depending on whether the accrual rate was 1/80 or 1/45) and an employer contribution of 18.5 per cent. The GPP scheme had an employee contribution rate of three per cent or six per cent which the employer would match plus two per cent, i.e. an employee contribution of three per cent attracted a matched funding from the employer of five per cent.

7.4 Changes in contribution levels to other types of scheme (apart from defined benefit schemes)

In this research we found no examples of changes imposed on employee contributions to schemes other than defined benefit schemes.

Where employer contribution levels to schemes other than defined benefit arrangements had been increased this had most commonly been with an intention to tackle recruitment problems. Higher levels of employer contributions had been brought in to assist with recruiting specific (senior or specialist) categories of staff and this new higher contribution level was only offered to these staff. An example of this was a large construction firm who were keen to recruit and retain more senior staff. They decided to increase contribution rates to their GPP scheme for higher-grade staff and directors to make their scheme more competitive. All employees contributed five per cent, but for higher grade staff such as managers and heads of departments the company contributed seven and a half per cent and for directors ten per cent, rather than a matched contribution of five per cent.

In a few cases employers had increased the level of contribution that they offered certain categories of staff in an attempt to make the level of pension benefit offered more equitable across different employee groups (typically those with and without access to the employer's defined benefit scheme). Occasionally, this was the result of employee pressure from those seen to be disadvantaged by unequal benefit provision. In other cases, it was simply because the employer felt that this was the 'right thing to do'. Examples of this included a large firm of solicitors, where employer contribution rates to their GPP Stakeholder schemes for staff aged 40+ were increased to 'start to bring them more into line' with the contributions to the closed defined benefit scheme and a large independent school, where contribution rates for the GPP scheme for non-professional staff were increased in response to employee pressure.

One employer (a medium-sized care organisation) had actually reduced their employer contributions to a defined contribution scheme because they were felt to be unsustainably high (and well above 'market average') at ten per cent. This organisation had been advised by an accountant who had recently joined them to reduce their contribution because the potential cost if take-up levels increased was felt to be too high.

7.5 Setting up Stakeholder schemes with no employer contribution

Where employers had set up Stakeholder schemes that they were not making any level of contribution to, this had been done purely in response to the legislative requirement[9] and employers had little or no commitment to these schemes as a result.

> *'We have a piece of paper that says we are a Stakeholder pension provider, but we make no contributions to it. Because we make no contributions to it, we have no participants.'*
>
> Large independent school

Most went through a standard procedure of asking around three potential providers to make a presentation to their organisation and then selected one (typically the one with the lowest administration charges). One employer stated that they had selected their provider on the basis that they were prepared to take employee contributions direct from their own bank accounts, minimising the employer involvement.

Where the Stakeholder scheme set up represented an extension of existing provision, this new scheme tended to be covering the staff that the employer had already concluded had no interest in pensions (i.e. young staff, those paid low salaries (often close to the minimum wage) and those working few hours, possibly not providing the main household wage, or employed as a second job or working to support study). Hence they have made little effort to actively promote the scheme to these individuals.

One or two employers had considered making a contribution to these schemes but had decided that there would be a greater positive impact on employee retention and morale from a wage increase.

7.6 Decision making on pension scheme changes

The change process was initiated in a number of different ways which varied depending on the type of change and to a lesser extent, the size of the company:

- where there had been changes to the defined benefit provision, the change process was usually initiated either by the scheme trustees, (because of concerns about a current deficit or the longer-term funding of the scheme) or the board of management of the company (because of concerns about the rising costs of maintaining the provision). Given that, in many cases, members of the senior management team were also trustees it was not always clear who initiated the process;

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9 From October 2001 any employer with five or more staff was required to offer staff not covered by other occupational pension access to a Stakeholder pension.

- where defined contribution, GPP or Stakeholder schemes with an employer contribution had been set up, the process was usually initiated by the senior management team, (where there were concerns about the rising costs of the provision or problems with the provider, for example where the scheme was managed by Equitable Life) or the senior manager responsible for pensions, where the change was prompted mainly by a change in the legislation; for example, the HR Manager of a medium-sized manufacturing company and General Manager of a small manufacturing company;
- where there had been a change in the employer contribution rate to schemes other than defined benefit schemes, it was usually the person responsible for pensions who initiated the process, for example, the HR Manager of a large construction company, the Finance Director of a medium-sized care organisation and the MD of a small manufacturing company;
- where a Stakeholder scheme with no employer contribution had been set up in response to the legislation, it was usually initiated by the person responsible for pensions where there was already some other pension provision or the person responsible for human resources where there was not. For example, in a medium-sized manufacturing company which set up a Stakeholder scheme for those not covered by its existing GPP, it was the Finance Director who was responsible for pensions who initiated this process. In a small food services company with no existing provision, it was the owner who initiated the process.

Where the process had been initiated by the trustees or senior management team, one person was typically appointed to ‘lead’ the process. This was usually the chairman of the trustees (often a member of the senior management) or a member of the senior management team, typically the HR Manager or Finance Director. In larger schemes they were often assisted by the Pensions Manager or a member of the finance team.

The initiator or person charged with responsibility for the process typically looked at the options available and either presented all these back for review or presented just their recommend approach. Examples of how this worked included:

> A large firm of lawyers where the trustees of the defined benefit scheme were concerned about the rising costs of the scheme. The Chair of the Trustees who was also a senior partner of the firm and had expert knowledge of pension issues was charged with reviewing the options. He presented back a paper with his recommendations to the trustees, which was then put up to the Management Committee for approval.

> When the problems with Equitable Life arose, the Bursar of a large independent school raised his concerns about the fact that their defined contribution scheme was with Equitable Life with the governing body of the school and scheme trustees (two of the scheme trustees were also school governors, the third was an employee trustee). The governing body and scheme trustees decided to review their options including changing the type of scheme as well as the provider. The Bursar was asked to appoint an IFA to review the options available them. All the options were presented and discussed by the governing board and trustees, which opted to set up a GPP scheme in place of the defined contribution scheme, because it would reduce the costs and administration involved.

In all cases, except where it was a small owner-managed business, the decision was approved at board level. Where the organisation involved was a subsidiary of a larger company, there was usually the need to get approval from the parent company, although there were no cases where this appeared to be more than a formality.

We only found one or two instances of where there was any significant disagreement at board level about the appropriate course of action. These included:

> A large service company, who were concerned about the rising costs of their defined benefit scheme, commissioned a team of consultants to review their situation and the options available to them. The consultants recommended the closure of the scheme to new members and the setting up of a defined contribution scheme in its place. The HR Manager was unhappy about "*moving from the pensions high ground to the pensions low ground*" and managed to convince the Board to further investigate options for keeping the scheme open. One of the options reviewed and eventually agreed was to keep the scheme open to new members, but with higher levels of employee contributions and/or lower accrual rates. (Existing members also had contribution rates increased, albeit to a lower level). A defined contribution scheme and Stakeholder scheme with an employer contribution were set up for staff not wishing to join or remain in the defined benefit scheme.

> A not-for-profit organisation was going through the process of assessing the options for the future of its final salary scheme. Action was needed to address a large deficit, which had the potential to seriously affect the viability of the organisation. A working group had been set up to assess the options available, and will shortly present its findings and recommendations back to the main Board. Currently there were two main bodies of opinion present on the main Board, the first was pushing to close the scheme to new members and introduce a defined contributions scheme for new staff, while the second group preferred to preserve the scheme as it was, but reduce the benefits and change the rate of accrual from sixtieths to eightieths. There was no indication at the time of interview which party would ultimately win through and decide the future of the scheme.

External advisers were often involved. Sometimes they provided the impetus for the change process, for example, by advising the firm that they needed to make changes to comply with new legislation or providing the actuarial valuation of the fund. More commonly they were brought in in an advisory capacity. Examples included:

> A large manufacturing firm who needed to significantly increase their contributions to their scheme to maintain the required fund level. The Finance Director, who was also the Chair of the scheme trustees was charged with examining the options available. He, together with the Pensions Manager, came up with a wide range of differing options from maintaining the scheme as it was, to closing it to new members, to altering contribution rates, accrual rates and benefits. A firm of actuaries was asked to cost all of these options with the aim of finding the one which offered the greatest reduction in cost relative to the benefit. Having identified what he thought was the best option, the Finance Director/Chair of trustees wrote to all the senior managers, many of whom were also scheme trustees outlining all the options and costs involved and his recommendation. His recommendation was agreed by the board and trustees.

A small services company who had a GPP scheme with Equitable Life. An independent financial adviser (IFA) was brought in to advise them of what options they had, including whether they should transfer out of the Equitable Life Scheme and, if so, what type of scheme they should set up in its place. The IFA recommended transferring the funds from Equitable Life and setting up a Stakeholder scheme with an employer contribution to replace it. His recommendation was initially presented to the Managing Director and Finance Director and then approved by the board.

A medium-sized manufacturing company which wanted to set up a Stakeholder scheme with no employer contribution for employees not eligible for the GPP. The Finance Director initiated the process by informing the Managing Director of their need to do this because of changes in the legislation. The Finance Director appointed an IFA to find the best provider. (The Trade Union was also consulted and put forward their provider). The Finance Director, along with the Managing Director, made the final decision and essentially opted for the cheapest provider.

Most employee trustees interviewed felt they had been kept fully informed and involved in the process along with other trustees. We found only one instance where the employee trustee felt they had not been kept fully informed and consulted. This was the employee trustee in a large services company, where the senior management were concerned about the rising costs of the scheme. They had commissioned a firm of IFAs to review the options and, in the view of the employee trustee, had effectively decided to close the scheme to existing members before they even involved the trustees. The trustees had only been able to negotiate finer points such as retaining the spouse death in service benefit in the new scheme. The employee trustee felt that they had not been consulted earlier because the management was concerned that they would not agree, as most of the trustees were scheme members. The staff association representative had similar concerns and felt the staff forum had been told rather than consulted about the changes, as they were only informed just before the decision was generally communicated.

There was also some evidence of employees being consulted about changes, but in all but one or two of the larger schemes, this was a fairly informal process. For example a small services company which replaced its GPP scheme with Equitable Life with a Stakeholder scheme to which they also contributed, felt it was important to consult staff about the changes they were proposing to take as part of the process of ‘rebuilding their confidence in pensions’. This included asking staff whether they would like to have an employee trustee in addition to the management trustees as part of the discussion around the type of scheme to opt for, but all but one felt this was not necessary. Another example was a large manufacturing company where some senior managers talked to a few staff to gauge the strength of feeling about maintaining the existing defined benefit scheme.

8 How are changes to pension schemes communicated to employees?

This chapter of the report looks at the ways in which changes to pension schemes have been communicated to employees. We look at the approaches that have been taken for the different types of changes implemented and the messages that these approaches were designed to convey. We then look at the extent to which employees recall communication about pension scheme changes as well as their understanding of and satisfaction with the level of communication received.

8.1 Types of communication used

Employers had used a range of types of communication to convey changes to pension arrangements on a scale from individual notification by letter to no communication at all.

Where a new scheme with an employer contribution had been set up, this had generally been communicated to all employees on an individual basis by letter. The message that employers had been looking to convey in this communication was essentially driven by their level of interest in the take-up of the scheme.

Where a defined benefit scheme had been closed to new members, employers had usually sent a written notification to all current members seeking to reassure them that they would still be looked after. This was also the approach that had been taken when employers needed an increase in employee contributions to defined benefit schemes. In these letters employers had sought to convey to employees that it was not mismanagement of the scheme on their part that had led to the need for an increased contribution from employees but an inevitable result of the recent poor performance of the stock market and/or bad management by fund managers. They had also tried to let employees know that the employer contribution had increased by a much greater degree (over recent years) than they were asking employees to increase their contribution by. Furthermore they had tried to reassure employees that it was not a good idea to leave the scheme.

Restructuring of defined benefit schemes in other ways (e.g. in terms of changing accrual rates) had usually warranted a combination of individual communication backed up by group presentations and/or roadshows. The group communication approaches had been used as back-up in cases where the employer had presented employees with options (and cared about which option they went for).

For example, a large engineering company that was increasing employee contribution rates to their defined benefit scheme and restructuring benefits ran a series of roadshows for all employees to explain the reasons for the change, that they had considered a number of different options and why they felt the approach taken was the best one. They also explained that those employees who did not want to pay the additional contribution could switch to the defined contribution part of the scheme. (The scheme was a hybrid scheme with only employees aged 40+ eligible for the defined benefit part. Members had to opt to join the defined benefit part and could opt to remain or move back into the defined contribution section if they preferred.) All employees were also sent a letter explaining about the changes and options and it was also covered in a pension newsletter. They were very pleased that 100% of members opted to stay in the defined benefit element and felt it justified the efforts they had made to communicate the changes to staff.

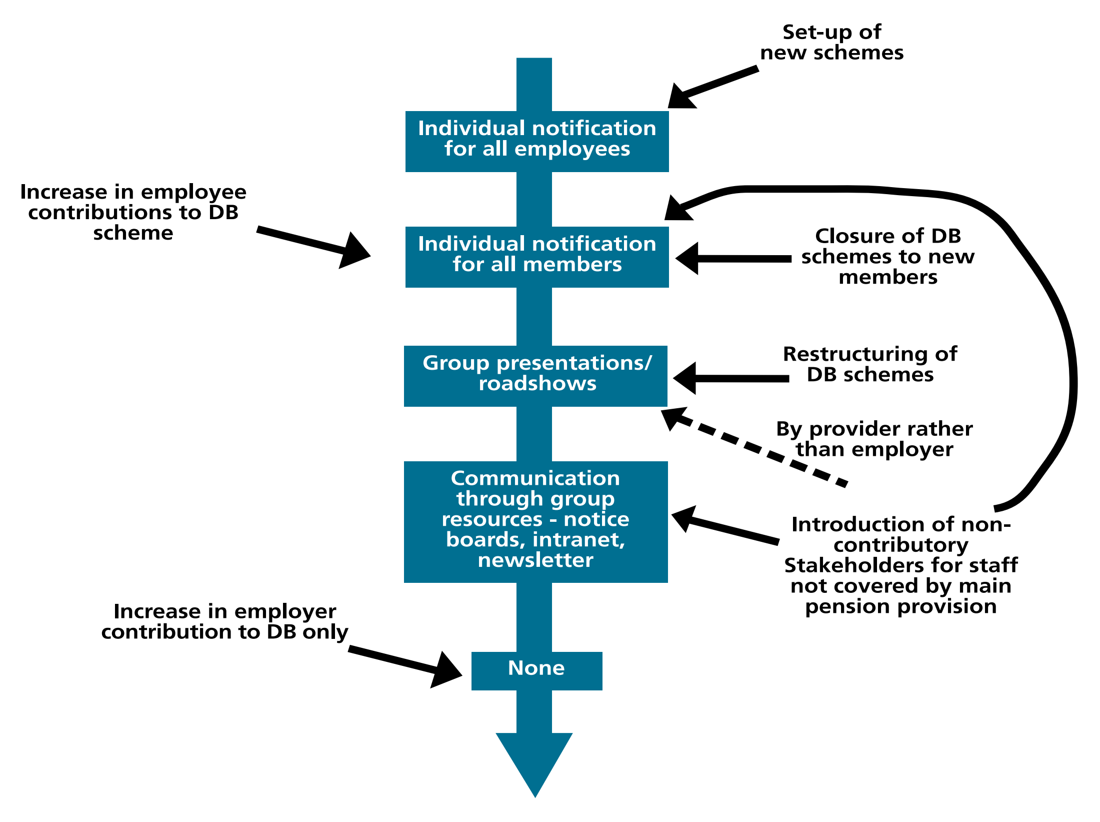
Another example of employers using staff meetings was where the employer was setting up a new scheme to replace an Equitable Life scheme. They felt it was important to have a meeting with staff rather than just to send out letters in order to restore staff confidence in the provision and encourage them to remain in the schemes. Again staff responded favourably with almost all remaining in the scheme.

Communication through group resources such as noticeboards, newsletters or, in larger organisations, intranets had commonly been the approach taken to let employees know about the set-up of Stakeholder schemes without an employer contribution as an extension to the employer's core provision. In some organisations group presentations had also been conducted although these had frequently been organised and run by the pension provider rather than the employer themselves. However, untargeted group communication can have its drawbacks. A large construction firm used its newsletter to explain its benefit structure (including pensions) to all staff. The main purpose was to increase staff awareness and appreciation of the benefits to aid retention, particularly among more senior staff. However, this only served to highlight that benefits were significantly better for senior staff and this caused some resentment among lower grade staff and a push for more equality particularly in terms of holiday entitlement – staff had now started to campaign for an additional two days annual leave to match supervisors and managers.

Sometimes when the employer contribution to defined benefit schemes had increased but the level of employee contribution had remained unchanged, employers had taken the decision not to communicate this to employees at all. This decision had been taken as employers did not want to 'set a precedent' that would lead employees to assume that they would always 'bail the scheme out'. Some were also concerned that communicating this change to employees would lead them to be unduly worried about the level of scheme deficit and concerned about the future of the scheme.

Figure 8.1 below summarises the main types of communication about pension scheme changes diagrammatically. These are ordered in terms of the extent of personalisation of the communication (which broadly decreases from the top box down to the bottom one on the diagram). However, as discussed in this chapter, in some cases more than one type of communication was used.

Figure 8.1 Communication about pension changes



8.2 Employee recall and satisfaction with communication

Most of those directly affected by the changes that had been made to their organisation's pension provision recalled that changes had taken place. There were only a few instances where some of those affected were not aware that any changes had taken place and in these cases there were usually mitigating circumstances. For example, in the case of a large manufacturing company which was replacing its defined benefit scheme with a Stakeholder scheme (with an employer contribution) where the communication process was not fully completed at the time of the research. (There had only been informal communication with small groups of staff as part of the consultation process and a formal announcement to all members had yet to be made.)

Other cases, where employees were unaware that there had been any change (or where they were unaware that there was a possibility of change) were where there had been an increase in the employer contribution only, or where an increase in the employer contribution had been considered but not (yet) implemented. In most of these cases, this lack of recall is understandable since the organisation had taken the decision not to inform members directly of the change. This included a large services company that increased employer contributions to its defined benefit scheme and a small manufacturing company that considered, but decided not to, increase employer contributions to their GPP scheme. The only other example of employees who should have received information about changes (according to the employer's stated programme of communication) but who did not recall that there had been any changes, were two young employees (aged 16 years and 17 years) of a small food services company which had set up a Stakeholder scheme with no employer contribution. All the other employees from this organisation interviewed did recall being informed that a scheme had been started and this lack of awareness among these individuals may simply reflect a low level of interest in pensions among these young people.

In organisations that had chosen to inform those not directly affected by changes to pension provision (because they were members of schemes that were not being changed or were non-members but not eligible for the scheme that was being changed) recall that some form of change had taken place was high among those who were members of other pension schemes. Among non-members, who were unaffected by the changes, awareness was more patchy

Among those who recalled being informed that changes were taking place, understanding of the main changes and the immediate/direct implications was generally good (for example, that there was a new scheme available or that employee contributions would need to increase.) However, some of the more minor changes were not always picked up on and employees often did not understand all the messages that the employer was looking to convey.

In addition, some employees did not seem to fully understand that a particular change, although having no direct effect on them now, might impact on their pension entitlement in the future. This mainly applied to organisations where changes were made to the defined benefit scheme. Examples included:

All employees of a large manufacturing company interviewed were aware that employee contributions to the final salary element of their hybrid scheme had been increased, but only those already in the final salary part were aware that the early retirement benefit had also been removed, although this change would affect members moving into the final salary part in future.

A large firm of lawyers had increased employee contributions to their defined benefit scheme and increased employer contributions to their GPP and Stakeholder schemes for employees aged 40+ to start to redress the imbalance in employer contributions between the schemes. While most members of the GPP and Stakeholder schemes interviewed were aware of this increase in employer contributions, they were not aware of the rationale for it. This probably reflected that, as these employees were under 40, they had not been informed directly of the change, but had simply heard about it from colleagues.

A large services company had increased employee contribution rates and/or changed the accrual rates for existing members of the scheme. All members interviewed clearly understood about these immediate changes and how they affected them. However, although the employer felt they had communicated the possibility that the scheme might be closed down altogether and members transferred to the defined contribution scheme set up for other staff, not all members interviewed fully understood the implications of this on their pension entitlement i.e. that it would no longer be guaranteed.

'My contribution is going up to 7.5% or 8% - at a guess because investments are falling. The employer contribution has just increased – I got a letter, I think it will be 10% and it was something like 7 or 8% before – I don't know.'

Female employee of a large utilities companies, aged 30, member of a defined benefit scheme

'I was told in a letter that my contributions were going up by one per cent. Personally as I don't earn very much, then that is one per cent of not very much – that is almost nothing. It says the scheme is facing increasing costs and I'm happy to contribute slightly more if this helps preserve it for the future.'

Male employee of a large media organisation, aged 25, member of a defined benefit scheme

'That's very nice of them [to increase employer contributions] I'd like to think it's all more secure as a result. But why are they paying more into it. Is there something that we should know?'

Female employee of a large services organisation, aged 43, member of a defined benefit scheme

Most employees who were informed and aware of the changes were satisfied with the information obtained. They felt the information they had received was generally good and clear. This was reflected in the fact that all these employees correctly understood whether and how the changes would affect them, at least initially. (As discussed above, some did not always appreciate how it might affect them in the future – and if they had done so, they would perhaps be less likely to view the information given as clear.) In a few cases there was some criticism. This was mainly either dissatisfaction with the communication because it was too generic and members wanted more detailed information about how it might affect them or because it did not include any information about what might happen to the scheme in future. These criticisms mainly applied to changes to defined benefit schemes.

It included the case of the large services company (referred to above) which had retained its defined benefit scheme for existing members (with some changes to employee contribution and accrual rates) for now but clearly signalled that they might not be able to continue it, in which case existing members could be switched to the new defined contribution scheme which has been opened for other employees. One or two of the members interviewed, all of whom were over 50, wanted more information about what would happen to their entitlement if they were switched to the defined contribution scheme. These were the ones who recognised that such a change might affect their entitlement. One or two other members interviewed, as discussed above, were not aware of this (and hence felt that the information they received was adequate).

Another example was a large firm of lawyers who had increased employee contributions to their defined benefit scheme. The member of this scheme interviewed felt the letter he had received about the changes clearly explained about the changes and the reasons for it. However it said nothing about the future of the scheme about which he was very concerned.

Most employees were also aware of where they could go for further information or if they had any queries. A number had already consulted someone, for example to check that their understanding of the communications they had received was right or to get more information about a new scheme.

Most criticism, in terms of information given about changes, was about the lack of communication *since* the initial announcement. This was mainly among employees of organisations running defined benefit schemes, that had made changes but retained the scheme and those who had introduced a Stakeholder scheme with no employer contribution. In the case of the defined benefit schemes, the changes have raised concerns about the continuing health of the scheme and whether it would be maintained.

For example, a large services company, which had closed its scheme to new members and had to increase employee contribution rates for existing members because the scheme was in deficit, had provided no further communication to staff (who, as a result, were worried about the future of the scheme). The staff association representative and employee trustee interviewed also confirmed that staff were very concerned about the future of the scheme, in particular what effect the changes have had so far and the continuing health of the scheme. Employees were very worried that, because the company had said nothing, this implied that the situation had not improved and all expected there to be further changes to the scheme, either a further increase in contributions and/or a further reduction of benefits or closure of the scheme altogether. Discussions with the employee trustee indicated that employee concerns were justified as the employer was actively considering replacing the scheme with a defined contribution scheme.

Among firms introducing Stakeholder schemes with no employer contribution, there was some criticism from employees (and employers) that application forms to join the scheme had taken quite a while to process and members had received no communication since joining the scheme. In the latter case, the members had been in the scheme for about seven to eight months and were dissatisfied that they had not had a statement showing what contributions had been made to the scheme. These members had not realised that statements were only sent annually.

8.3 Types of communication which have been most effective

The types of communication which had been more effective in informing employees about the changes had been the more personalised approaches such as letters and group presentations or staff meetings, particularly where these have also been followed up with individual letters. Examples of approaches to communicating changes that had involved personalised letters included the following cases. While we consider that in these cases the communication had been relatively successful, they had not always worked perfectly as the first example and some of the subsequent discussion indicates:

A large firm of lawyers who increased employee contributions to its defined benefit scheme and increased employer contributions to its GPP and Stakeholder schemes for all staff over 40 years of age. Personalised letters were sent to those directly affected by the changes and awareness and understanding of the changes among these members was good. However, some younger (under 40 years old) members of the GPP and Stakeholder schemes had also heard about these changes, through the 'grapevine' and this had caused some resentment. These staff were not aware of the rationale for the change (which was part of the employer's attempt to start to redress the balance (in terms of employer contributions) between the defined benefit scheme and other schemes. The changes had only recently been introduced and it was the employer's intention to communicate this change to all staff in the future, as part of its general efforts to promote the schemes. Wider communication of the changes and their rationale may well help to curb this dissatisfaction.

A medium-sized manufacturing company had introduced a Stakeholder pension scheme with no employer contribution for staff not eligible to join its GPP scheme. All employees had been sent a letter about the introduction of the scheme, posters were put up on notice boards and leaflets about the scheme were also made available in the workplace. All the eligible employees interviewed were aware of the new scheme. Two had made enquiries about the scheme, but decided not to join as they already had personal pensions and felt, or were advised that, as there was no employer contribution there was no advantage in joining the scheme. The other eligible employee claimed to be considering whether to join as they had no pension provision. Overall 10 employees had requested further information about the scheme, but to date no one had joined.

Examples of where group presentations and staff meetings had proved effective in informing employees about changes included:

A large manufacturing company that was increasing employee contributions to the final salary part of their hybrid scheme. All scheme members (not just those in the final salary part) attended small group presentations given by the pension manager, in addition to receiving a letter. The changes were also covered in the pension newsletter which included a summary of the main questions and answers raised at the meetings. These communications explained what changes were being made, the reasons for this and other options considered. All members were aware and understood the main changes that were being made (although, as discussed earlier, some younger members, who were still in the defined contribution part, were not aware of the removal of the early retirement benefit). All members in the final salary section had opted to pay the additional contributions and remain in the scheme and those in the money purchase section felt they were still likely to opt to go into the final salary section when they reached 40

A small services company who set up a Stakeholder scheme with an employer contribution to replace the GPP scheme they had with Equitable Life. All members (almost all employees were members of the scheme) were told about the setting-up of the new Stakeholder scheme by the Finance Director and were also sent a letter. Arrangements were also made for people to speak individually to the IFA. Everyone had joined the new scheme, which the company felt was at least in part due to the efforts they had made to keep staff informed over the last two years, since the problems with Equitable Life started. Over the last two years, the IFA had been in to talk to staff three times as a group and also talked to staff on an individual basis. Employees were very satisfied with the communication they had received and all were fully aware of the changes that had been made. Their only concerns related to money they had lost as a result of transferring out of the Equitable Life scheme, but realised this was not their employer's fault.

However, there were a couple of instances were group meetings were less effective. This was mainly because not all the staff attended them. An example of this was a large care organisation who decided to close their defined benefit scheme to new members. Eligible staff were given three months' notice of this last opportunity to join the scheme. Over this time, road shows were run at each of the sites and the employer also set up a helpline. They particularly stressed the benefits of the defined benefit scheme and pointed out the tax benefits i.e. *'that if staff made a contribution of £40, they would only lose £25 from their pay packet'*. They were very disappointed both by the attendance at the meetings and that only 10 of the 750 staff who were eligible took the opportunity to join. Another example was a medium sized manufacturer who set up a GPP friendly Stakeholder scheme, for staff not eligible to join the existing GPP (with the intention of merging the two schemes in the future). There was a presentation to all staff at which they also received a pack about the new scheme. All existing members and one non-member attended the presentation and were all well aware of the changes. The non-member was now joining the new scheme. The other two non-members did not attend the presentation and were not aware of the changes. They had not attended the presentation as they felt they were not in the position at the moment to join the scheme because of other financial commitments.

The types of communication which have been less effective in informing employees of changes in provision were the less personal approaches such as emails, leaflets/notices on notice boards and articles in staff magazines. Whilst these can be a useful addition to more personal approaches, as many of the examples above illustrate, they are less effective on their own. Examples included:

A large services company made changes to contribution and accrual rates to their defined benefit scheme and set up a defined contribution scheme and Stakeholder scheme with an employer contribution. Whilst the defined benefit scheme has remained open, the employer felt that they had clearly signalled to members that it might be closed in future and members transferred to the new defined contribution scheme. The information was communicated to all staff via circulars and leaflets attached to pay slips and emails. As discussed earlier in this chapter, not all members were aware and understood the implications of this on their pension entitlement. Furthermore the non-members interviewed were not aware at all (i.e. even after prompting) of the introduction of the new schemes.

A large construction firm used its newsletter to explain its benefit structure, including pensions, to all staff. The main purpose was to increase staff awareness and appreciation of the benefits to aid retention, particularly among more senior staff. (Recently the employer contribution to the GPP scheme had been increased from five to seven and a half per cent – ten per cent for more senior staff only). However, this only served to highlight that benefits were significantly better for senior staff and this caused some resentment among lower grade staff and a push for more equality.

9 How have employees reacted to changes?

This chapter examines the reactions that employers had expected (or experienced) from employees to the changes that they had made or were proposing to make (and actual changes where there has been a sufficient time-lag between the change being made and the interview being conducted). We also look at their opinions of the impact these changes were likely to have on future take-up of the scheme. We then examine employee reactions and concerns about the changes that have taken place and their views of the impact that these would have on their pension provision. We also look at the impact of changes on the likely loyalty of employees to their employer and on the likelihood of non-members deciding to join the scheme.

9.1 Perceived/anticipated employee reactions (employer view)

Where defined benefit schemes had been closed to new members, most employers felt that there had been next to no adverse reaction from employees because the change only impacted on new joiners to the organisation (and it was not advertised to new joiners that existing employees were members of a different scheme). One or two of these employers who had closed defined benefit schemes to new members had received concerned enquiries from current members who felt that closure to new members could indicate that wholesale closure was imminent.

One or two employers were also worried that employees who had chosen not to join the defined benefit scheme when they first became eligible (and had not paid much attention to the notices about closure of the scheme) might react negatively when they found out that this option was no longer available to them. However, organisations that had made considerable effort to encourage non-members to join the scheme before it closed (including programmes of roadshows and one-to-one meetings) found that very few additional employees had joined the scheme as a result, leading them to conclude that all employees who were at all interested in having a pension were already members. An example of this was a large care organisation which had had a meeting to explain to staff that the defined benefit scheme was closing to members and this was the last opportunity to join. They were disappointed that only 10 out of a possible 750 eligible employees had chosen to join following this activity.

Increases made to the employer contribution to defined benefits schemes were rarely communicated to employees and hence provoked no reaction.

In cases where an increased employee contribution had been requested, employers felt that this had been met with a reaction of 'resigned acceptance'. Indeed, this was the anticipated reaction of employers who had yet to publicise the proposed change – some of whom had conducted an informal small-scale 'sounding out' exercise to confirm that this was the case. It was thought that employees were prepared to accept an increase in contribution levels partly because they were relieved that the scheme was not closing (as recent media coverage had perhaps led them to expect).

One large media company had arguably taken advantage of the current nervousness surrounding pension schemes to ask for increased contributions from members despite the fund being in surplus. It was seen by the organisation as a good time to boost the income of the fund and attempt to build up the surplus to provide some protection against an uncertain future.

None of the employers who had already imposed an increased employee contribution found that any employees had left the scheme as a result.

Employers generally reported that the schemes that had replaced defined benefit schemes for new joiners had seen a comparable level of take-up as the scheme they replaced (perhaps slightly lower). There were one or two examples where take-up had increased as (a small number of) people who had not joined previously took the opportunity to join the new scheme. Where the replacement scheme offered a lower level of employer contribution this had not been explicitly communicated to new joiners and hence the introduction of the new scheme had not been greeted with any complaints on this issue.

As employers with Stakeholder schemes that they were not contributing to expected, most of these schemes have had very low take-up and in fact several were still empty. One or two employers have used these schemes for Additional Voluntary Contributions (AVCs) from members of their 'core' schemes.

Where employer contributions to other types of schemes (i.e. defined contribution, GPP or Stakeholder schemes) had been increased, this was positively received by employees (although had not necessarily led to greater take-up of the scheme). Where contributions had been reduced this had only impacted on new joiners and again there had been no negative reaction from this group, simply because the fact that others were receiving a higher level of employer contribution was not publicised.

9.2 Anticipated impact on future take-up

Employers who had made changes to their pension schemes did not anticipate that these changes would have any significant impact on the future take-up of their pension schemes. The one exception to this was an employer who had been running a defined benefit scheme and was now replacing this with a Stakeholder scheme with no employer contribution.

9.3 Employees' reactions to change in provision

The rest of this chapter examines employee reactions to pension scheme changes. It looks first at how they felt these changes would impact, if at all on their pension, what concerns they had and whether these changes had made them feel differently towards the pension scheme, including whether changes had led to any members leaving the scheme or encouraged any non-members to join. It then discusses whether these changes had affected employees' views of their employer more generally and the likelihood of them staying with the company. It finally discusses whether employees anticipated any further changes to their scheme.

9.4 Perceived impact of changes on pension

The impact which employees felt the changes had had on their pension provision varied with the type of change. As employers perceived, where defined benefit schemes have been closed to new members this had generated little or no adverse reaction from employees, particularly in terms of people (considering) leaving the scheme. However, it had, as discussed later in this chapter, increased concerns about whether the scheme might be closed altogether in the future or other changes made.

Where employee contributions had been increased, employees recognised that there would be no impact on the pension they obtained, albeit they were having to pay more to retain it. They were relieved that their employer had decided to maintain the scheme, recognising, from media coverage, that many employers were closing their schemes altogether. Their main concern was about the future and in particular about contribution rates being increased again and /or benefits being further reduced.

> *'It is reassuring that the company is increasing payments, it shows that they are monitoring it.'*
>
> Female employee of a large utilities organisation, aged 30, member of defined benefit scheme

> *'The assets of the pension fund on the stock market have devalued and that loss of value has to be made up I guess. Also life expectancy is far greater than it was, the numbers drawing pensions increases each year and they have to look at how to finance it.'*
>
> Male employee of a large utilities organisation, aged 53, member of a defined benefit scheme

> [Reaction to increased employer and employee contributions] *'Hopefully the changes will not affect me too much. My take-home pay will be less, especially with the NI contributions going up as well. But at least there is not likely to be too great an effect in the long term'*
>
> Male employee of a large utilities organisation, aged 47, member of a defined benefit scheme

For some this was felt to be more likely than the scheme closing, possibly reflecting that they felt that their employer really did want to keep the scheme going either because some of the senior managers were in the scheme or for more altruistic reasons.

For example, a member of a final salary scheme where the employee contribution had been increased felt this was the *'thin end of the wedge'* and that they would keep increasing the contribution rates in preference to closing down the scheme and he would be effectively *'priced out of the scheme'*.

Another example was a large service organisation, which had also increased employee contribution rates and/or and reduced accrual rates, where members felt these would continue to rise and/or benefits would be further cut in line with what they perceived to be a more general trend to reduce staff costs and benefits across the company. (Employer discussions confirmed that this had been the case as the company was under considerable financial pressure).

In one organisation, where employees were unaware of changes to the company's pension scheme, (because this had only been an increase in the employer contribution which had not been communicated to employees) they were still concerned about the future of the scheme as they knew the company was 'up for sale' and they were very worried that a future employer might not want to retain the scheme. Discussions with the staff association representative confirmed that this was of concern to a lot of staff.

In cases where new schemes with an employer contribution had been set up or employer contributions to defined contribution, GPP or Stakeholder schemes had been increased, employees generally viewed these changes as positive. There were a few exceptions to this including:

A small services company where a new Stakeholder scheme, to which the employer contributed, had been set up to replace the GPP scheme they had with Equitable Life. Members were concerned about the loss they had incurred when their funds were transferred out of the Equitable Life scheme and whether or how long it would take for them to make good this loss. One member (who was only a few years away from retirement and estimated that the value of her fund was reduced by £5,000) felt that she was unlikely to make up this amount in the time, 'given the current state of the market'.

A large construction company that had increased employer contributions for more senior staff only. More junior staff who found out about this change, whilst recognising that it had had no direct impact on their provision, viewed it as negative.

In cases where a new Stakeholder scheme with no employer contribution had been set up, employees felt this to be of no real benefit to them (partly because there was no employer contribution and partly because they had no real interest in pensions or felt that joining a pension scheme was currently beyond their financial means). This was reflected in the fact that none of the employees interviewed had joined the scheme, albeit that a few had considered doing so. The employer interviews confirmed there had been little or no interest and take-up of these schemes. A few employees acknowledged that the fact that the employer offered a scheme, either where there was not one before or for staff not eligible to join the existing schemes was an improvement, albeit not a substantial one.

9.5 Impact of changes on scheme membership

We found no cases of members leaving the pension scheme as a result of the changes. However we did find a number of instances of non-members having joined or at least considered joining schemes as a result of the changes in provision. These were mainly where employers had set up a defined contribution, GPP or Stakeholder scheme to which they contributed or had increased their level of contribution to the scheme. Often this was simply because joining a pension scheme had been a nagging concern for these employees and communication received about changes had served to 'jog their memory'. Examples included:

Employees of a large service company that had set up a GPP scheme with an employer contribution for people not eligible to join the defined benefit scheme. Both non-members interviewed were considering joining the GPP. Both had personal pensions but felt the GPP might be a better option for them because of the employer contribution. One of these members had considered joining the GPP when it was first established, but had been put off by the negative talk about the scheme at the time, which was seen as inferior to the defined benefit scheme. However he felt he should look again at the scheme and wanted independent advice, but was unsure where he could get it. The other employee joined the company more recently and had not planned on staying long with the company at first. Now she was more settled, she stated that she was very likely to join the scheme.

Employees of a medium-sized manufacturing company that had set up a GPP-friendly Stakeholder scheme with an employer contribution (which will eventually be merged with the existing GPP scheme, to which they also contribute). Two of the non-members interviewed were actively considering joining the scheme. One was doing so after a while with the company because the changes coincided with a improvement in his financial situation. (He had wanted to join before because he recognised the value of the employer contribution and that he should start to make provision for his retirement – he was now 28). The other employee was not eligible to join the original scheme because he was too young at the time of joining. He is now 19 and recognised that he was eligible to join the new scheme from the information he received about it and had been told by the pension administrator, that it was best to start contributing to a pension as soon as possible.

An employee of a large construction company that had increased the employer contribution rate to its GPP for more senior staff. This employee had not joined the scheme straight way, because she had come from another company with a defined benefit scheme and was uncomfortable about the additional risks with a GPP scheme. However she had recently been promoted to a management grade which entitled her to a higher level of employer contribution and this had made her reconsider joining.

An employee of a large independent school, that had recently increased the employer contribution to the GPP scheme. This employee used to be a member of the scheme when it was with Equitable Life. He left the scheme '*when it was in turmoil*' and set up a personal pension instead. The increase in the employer contribution, along with the fact that it was now with a new provider, had prompted him to rejoin the new scheme.

> An employee of a large manufacturing company that had a hybrid (defined benefit and contribution) scheme, that had reduced the age at which employees could join the scheme to bring it into line with the current legislative requirements. He was now eligible to join and intended to do so in a few months when he reached the end of his apprenticeship.

As discussed above, we found no instances of employees interviewed joining Stakeholder schemes with no employer contribution, although a few who had a personal pension had considered whether it would be beneficial to change and concluded, or been advised, that it would not because there was no employer contribution.

9.6 Impact of changes on views of employer and likelihood to stay with the organisation

In most cases the changes in provision had not altered employees' views of their employer. Although there were a few exceptions. Examples of where changes had led to deterioration in staff views of their employer included:

> A large services company which had increased employee contribution rates. The company had also reduced other employee benefits and the increased contribution rates were very much viewed as part of this trend, which had led to increased dissatisfaction with the employer.

> A large construction company that had increased employer contribution rates to their GPP scheme for senior staff only which had led to some junior staff feeling slightly less positively towards their employer.

In one or two cases, where the employer contribution had been increased, this had improved staff perceptions of their employer. This included a large independent school, where the increased employer contribution to the GPP scheme for non-professional staff, who were unable to join the teachers' defined benefit scheme, was positively viewed as a sign that they were 'valued'

However, we found no examples where changes in pension provision had had any significant impact on employees' stated likelihood to stay with their organisation. In one case a member of a defined benefit scheme indicated that if the scheme was closed in the future, this would decrease his propensity to stay with the company, particularly if any prospective employer still had a defined benefit scheme. He had already turned down another job, in part because the company did not have a defined benefit scheme.

9.7 Do employees anticipate further changes in the future?

Where there had been changes to a defined benefit scheme (aside from the complete closure of the scheme), most employees anticipated that there would be further changes in future. As discussed earlier, many were concerned about the future viability of their scheme and felt that further measures would have to be taken to safeguard the scheme such as (further) increasing employee contribution rates and/or reducing benefits, closing it to new members or closing the scheme down altogether. The fact that many employees had not had any information about the scheme since the changes were announced or made, had only heightened these concerns. Three employees currently in defined benefit schemes explicitly stated that they thought their scheme might close in the future.

> *'I'm scared that following reading some of the pension publications other companies have started tinkering with their schemes. That may be of concern sometime in the future. There was shock when the FS scheme closed* [to new members]*, it was the employer's decision and the staff had little or no warning.'*
>
> Male employee of large services company, aged 49, member of defined benefit scheme

> *'I do think they've got to keep reviewing contributions. I sincerely hope that they will not decide to withdraw from the final salary scheme. Although there are nominated members of staff who are Pension Scheme Trustees, I suggest that their influence is minimal. The company can probably do what they like.'*
>
> Male employee of a large utilities company, aged 53, member of a defined benefit scheme

> *'I still think that there will be more changes, there is a lack of confidence in the stock market, it will never return to the way it was. Further increases in contributions will probably be necessary in five years or before in order to maintain benefits. I'm worried. I don't know if they can close the scheme to existing members. I'm worried that they may find a way to do so because there are more members drawing on the scheme than contributing.'*
>
> Male employee of a large services company, aged 47, member of a defined benefit scheme

> *'Maybe an increase in contributions by the employees will be necessary, hopefully nothing else. I just hope that we can stay in the final salary scheme.'*
>
> Female employee of a large utilities company, aged 38, member of a defined benefit scheme

There were one or two instances of members of other types of schemes feeling that there may be changes in future to their scheme. This included one or two members of GPP or Stakeholder schemes where employers contributed, who felt that the minimum employee contribution rates might be increased.

Thinking about change more generally, a few employees anticipated that the Government would be conducting a wholesale review of the pension provision by employers in the next few years.

> *'I expect that Pearl* [the company administrating his personal pension] *will be taken over and I think the Government will step in with some sort of semi-safety net. I think that pensions will be semi-nationalised or go through some kind of public-private partnership.'*
>
> Male member of a small services company, aged 54, had a personal pension with an employer contribution

10 Attitudes towards retirement

This chapter looks briefly at employer and employee views on late retirement (that is retirement after the employer's normal retirement age) and on working more flexibly in the run-up to retirement. We also look at the extent of 'joined-up thinking' around pensions and retirement from both an employer and employee perspective.

It should be noted that employees were not asked detailed questions about the income they thought they would need in retirement and other similar aspects of retirement planning. Given the range of issues being addressed in this research and limits of interview length, it was decided to focus on attitudes towards late and flexible retirement and the relationship between pensions and retirement because these were issues of current policy interest. The recent Green Paper on pensions made proposals aimed at 'extending working life'.

10.1 Late retirement

In most of the organisations that participated in the research, the normal retirement age was 65. Where the normal retirement age was lower than this, this tended to have come about as the result of a legacy of a defined benefit scheme. A few of the organisations covered by the research were comparatively 'young' and as yet had had no, or very few, incidences of retirement at all.

Most employers felt that while early retirement remained aspirational for a considerable proportion of their staff, it was unlikely to be financially possible for all below very senior management. For example, in a large firm of lawyers, most partners arranged their affairs (and could afford) to retire in their late 40s or early 50s. Few worked beyond 55. Support staff however typically worked till the normal retirement age of 65.

Employers felt that, at a general level, it was desirable for employees to leave the organisation at normal retirement age. They viewed this 'cap' on service as a way of maintaining an injection of 'new blood' (and with it new ideas and working practices) in a way that did not impact negatively on staff morale.

However, most could cite incidences when they had allowed certain members of staff to retire late despite the fact that they had no formal policies around allowing this. In nearly all cases late retirement had been requested by the employee themselves. In most cases, the staff allowed to retire late had been quite senior or in particularly difficult to replace categories. One exception to this pattern was an organisation that did not allow late retirement, but had been forced to allow a key member of staff to stay on for three months beyond normal retirement until they found a replacement. This was at the employer's request and was viewed very much as an extraordinary circumstance, as they did not entertain employee requests for late retirement.

Often the contracts of individuals retiring late had only been extended for short periods (say a year) at a time and renewal of contract had been made subject to a medical examination. For example, a large construction company stated that much of their work was project-based and staff reaching retirement during the project would be allowed to (and for key staff encouraged to) stay on until the completion of the project. We only found one example of an organisation who did not allow late retirement. This was a large utilities company that was actively downsizing.

None of the organisations interviewed intended to create a formal policy on late retirement because they wished to maintain a level of discretion over who was allowed to work late. One or two did mention, however, that they had had so many precedents of allowing late retirement that it would be hard to turn down an application to continue working even though they had no formal policy. No employers had publicised the possibility of late retirement to employees, primarily because it was not something that they wanted to offer on a global basis. Looking forward, some agreed that they could anticipate a situation where they might approach specific (hard to replace) individuals proactively and ask them to consider working beyond the normal retirement age.

> *'It's getting more difficult to get people and if they are working well and able to continue then we should consider it.'*
>
> Small manufacturing company

No employers who had allowed late retirement had encountered any pension complications as a result. Those with defined benefit schemes had been able to simply to allow employees to defer drawing their pension and stop making contributions. Others with GPP or defined contribution schemes had found these were sufficiently flexible to accommodate late retirement.

One or two of the employee representatives interviewed stated that their position would now be to support employees looking to retire late (whereas in the past, this would not have been something that they would have viewed favourably).

10.2 Flexible retirement

Incidences of allowing employees to work more flexibly in the run-up to retirement were less common than incidences of allowing late retirement. A few of the larger organisations interviewed had schemes in place which allowed employees to reduce the hours that they worked in the run-up to retirement to help them 'acclimatise' to the life-change brought about by retirement. This covered the last six to 12 months and was without loss of pay or benefits.

Most other employers stated that they would try to accommodate any requests made to work fewer hours or to undertake different types of work in the approach to retirement if it were requested. For example, a medium-sized care organisation allowed staff to move from night to day shifts in the run-up to retirement. A medium-sized manufacturing company which was seriously considering introducing shorter shifts (in response to recruitment difficulties) indicated this might also be of benefit to people approaching retirement. However, some employers did feel that flexible working in the run-up to retirement would be difficult for them to work around (particularly if employees work in small teams) and hence not something that they would look to actively promote.

10.3 Employer links between retirement and pensions

There was little evidence of much 'joined-up' thinking in terms of pensions and retirement policies among the employers interviewed. Generally the two issues were dealt with by the same or similar groups of people but the two sets of policies were run in parallel.

> *'There is obviously a link and they might need to be discussed together at some point but pensions are most immediate and retirement only becomes an issue when someone reaches retirement.'*
>
> Medium-sized manufacturing company

A few organisations with defined benefit schemes had been forced by pressures to reduce costs to think about the two issues in a slightly more joined-up way. These employers had looked at the impact that their current retirement policies were having on the costs (and future risk) of running their pension schemes. One of these then elected to cap the joining age for the scheme, another removed the early retirement option and another raised the normal retirement age from 60 to 65 (for new joiners).

Generally speaking, most employee representatives interviewed had not had any level of involvement in decisions about retirement – nor had they sought to particularly. On pensions issues they had sought to be much more actively involved (although perhaps the extent to which they had been included by employer organisations was less than they had hoped). Issues such as retirement age and flexible working in the run-up to retirement were more commonly considered to be 'individual' or 'private' issues and as such a matter for one-to-one negotiation between employer and employee.

10.4 Employees' retirement plans

The employees that participated in this research split broadly evenly into three groups in terms of when they felt they were likely to retire:

- those who planned to retire a few years earlier than their employer's normal retirement age (typically around five years earlier) – in some cases this was an aspiration rather than a firm plan;
- those who planned to retire at normal retirement age;
- those who had no plans yet about when they were likely to retire.

Those in the last group were mostly aged under 40. There were no differences in planned retirement age by gender.

Members of schemes where there was an employer contribution were more likely to anticipate retiring early than those who were members of schemes where the employer did not contribute or were not members of their employer's scheme at all.

A very small number of employees anticipated retiring late – most of these employees were aged over 50. Some of these stated that they would probably look to retire late just because they felt they would want to continue to work in order to keep themselves stimulated rather than for financial reasons.

> *'I will probably work beyond normal retirement but probably just to keep myself occupied.'*
>
> Female employee of small catering business (aged 51), member of Stakeholder scheme with no employer contribution

Only two employees who had witnessed changes to their pension schemes felt that these changes would have any impact at all on their plans for retirement. One of these was an Administrator in a large business services organisation who was a member of the defined benefit scheme and felt that there was a chance that the benefits from the scheme would be reduced before he came to retire (this fear had been heightened by a recent increase in the employee contribution which he felt might mean the scheme was in trouble). The other was a Warehouse Manager with a small distribution company (aged 36) who had had vague plans to retire early but had 'lost money' as a result of transferring funds when the company set up a GPP scheme to replace the defined contribution scheme it held with Equitable Life.

A few other (more knowledgeable) employees mentioned specifically that they would have to see how the stock market performed over the next few years before they would be capable of seeing whether they needed to amend their plans for retirement. These employees stated that there was a chance that poor performance of their pension funds may mean that they had to work beyond the normal retirement age.

> *'I may have to work later – it is because of how the economic climate is currently working and so you might need to retain an income for longer.'*
>
> Female employee of large care organisation (aged 56), member of GPP scheme with an employer contribution

> *'I still hope to retire by the time I am 55 – maybe realistically though it'll be 60 to 65 if things with the stock market continue as they are.'*
>
> Male employee of small distribution company (aged 36) member of Stakeholder scheme with an employer contribution

There was a more widespread view among scheme members that they would just have to wait and see how much was in their fund when it came to the stage at which they wanted to retire and decide then whether they could afford to stop work. These employees seemed to feel that the value of their pension was largely out of their control, commenting that the forecasts that they received made it difficult to tell whether or not their pension would be adequate.

Most current scheme members aged over 30 had plans for other income apart from their pension to support them in retirement. For most this was the investment that they had made in their own home. Minorities had access to other investments such as shares, savings accounts, ISAs, annuities or partners' pensions.

11 Employees' attitudes towards pensions

This chapter draws together, in one section, the findings from the employee interviews covered in all the other chapters of this report. We look at the overall importance of pensions to employees, the features of schemes that they find attractive and unattractive, their awareness and understanding of their schemes (including the contribution rates), members' recall and understanding of the information that they have received about their scheme and the information that non-members would need to persuade them to join.

11.1 Overall importance of pensions

For many non-members of pension schemes, pensions were a nagging concern – it was something that they felt they should get sorted out but not something that they had much personal interest in. Those that had joined the scheme had mostly assuaged this concern by joining. They were not particularly interested in the workings of their organisation's scheme and hence had little awareness of the level of contributions made to the scheme, how the value of their fund is calculated and the implications that this might have for them in retirement. Most seemed to draw some comfort from the fact that they were members of a scheme but had not thought about the scheme a great deal since joining. The exceptions to this were some older and more knowledgeable employees who were within a few years of retirement and who displayed greater interest in the workings of their pension scheme.

Hence it did seem that, for the majority of employees, simply the fact that there was a pension available for when they chose to join was what was important rather than the type of scheme on offer. This was slightly less true for employees in companies providing defined benefit schemes. Members of these schemes displayed a greater level of interest in them (and particularly whether the benefits generated by the scheme were likely to be changed in the near future) and attached a greater importance to their pension scheme in relation to salaries and other benefits.

Most employees stated that they were made aware of the pension scheme offered before they made the decision to join their company but hardly anyone felt that this played any role at all in their decision about whether or not to join the organisation. All those employees who said that the pension scheme played at least a minor part in their decision to join were working for firms providing a pension scheme with an employer contribution.

One female employee of a not-for-profit organisation providing a defined benefit scheme stated that she had been a member of a defined benefit scheme at her previous employer and when she was told that her current organisation also offered one (at the interview stage) this encouraged her to join. She described the pension provision as playing a large part in her decision to join. She is not aware of the detail of how final salary schemes work but believes them to be good schemes that pay out well on retirement.

However, despite the fact that pension provision did not play much of a part in decisions to join an organisation, some scheme members stated that they now viewed the pension offered by their employer as a major part of their overall package. Most of these employees were working for organisations providing defined benefit schemes, were older (40+ years) and had a reasonable length of service behind them. Most of these individuals stated that the pension scheme offered had made them more likely to stay with their current employer. Male employees were slightly more likely to feel that their membership of the scheme had a retention impact than their female counterparts.

One female employee of a large media company stated that when she joined in 1978, the pension scheme played no part in her decision to join. However, once she had completed around 10 years of service, the scheme offered (a defined benefit scheme) became more important to her. She now feels that she will remain with the organisation until she retires.

> *'You'd have to have second thoughts about leaving a company where you were a member of the final salary scheme…..I don't think that many employers are offering final salary pensions so it would probably not be lucrative to move on.'*
>
> Male employee of large water company, 47 years old, member of final salary scheme

Few others felt that their membership of the company pension scheme had any impact on their likelihood to stay with the organisation. The only exceptions to this were a few members of defined contribution schemes who stated that they would probably remain with the employer at least until the vesting period was up. Generally speaking, there was not a very high level of awareness of vesting periods among those employees affected. Some of those affected by vesting periods knew or expected that there was some form of 'tie-in' with their pension, some of the rest were shocked that this was a possibility.

As well as those who said that they would be more likely to stay with their current employer because of the pension provision offered – a few (older) employees stated that, if they were moving jobs, they would probably only consider an employer who offered a scheme with an employer contribution. For example, a male member (aged 40 years) of a large services firm's defined benefit scheme stated that he had decided not to take another position because the prospective firm did not have a defined benefit scheme.

11.2 Reasons for joining pension schemes

When asked about their reasons for joining their employer's pension scheme, most employees gave a range of personal reasons why the particular time at which they chose to join was appropriate for them. Primarily these were about shifts in financial circumstances making saving for a pension affordable. However, this often coincided with changes in personal circumstances such as having got married or had children, having taken on a mortgage or having received a promotion – generally these reasons were about feeling 'settled' and hence having the time and inclination to look towards the future.

Hence, it would seem in many cases that it was not features of the individual scheme that attracted people to join but rather that their financial (and other) circumstances had meant that saving for retirement became a possibility/a priority for them. The fact that an opportunity to join a pension scheme had coincided with an advantageous set of personal or financial circumstances had led them to join, rather than any particular features of the scheme on offer attracting them to join.

That said, some members of schemes with an employer contribution stated that they had decided to join because there was an employer contribution available. For some this had served the purpose of speeding up their decision to join because they did not want to 'miss out' on taking advantage of any employer contributions. These employees felt that they would be unwise not to join the scheme because they would be missing out on benefiting from money that they were entitled to.

> *'Ultimately, having a pension is a good way of saving to have a good time when you retire. You would be stupid to miss out on a matched contribution because you are gaining extra money by taking advantage of it.'*
>
> Male employee of small distribution company, aged 28

> *'The employer contribution was very important. They put in six per cent to make it ten per cent – there is no way that I could have afforded to contribute ten per cent on my own.'*
>
> Female employee of independent school, aged 56

> *'I was advised to leave my British Coal pension and take out a private pension for the flexibility. When I joined this company, though, I realised that if I stuck with the private pension then I would be missing out on a benefit – being in the company scheme means double contributions.'*
>
> Male employee of small distribution company, aged 36

> *'If you decide not to join then you are effectively taking a three per cent pay cut.'*
>
> Male employee of small engineering company

However, this was not necessarily the majority view – many do not seem to think of employer contributions as something that they have an entitlement to in this way (and hence viewed a pension more as something that would cost them money rather than a way to increase the value obtained from their employer).

Some members were not sure of the level of employer contribution that was made to their pension. While it was more common for members of defined benefit schemes to be unsure of the level of employer contribution, several of those in other schemes with a matched employer contribution (i.e. where the employee had some control over the employer contribution) were also unsure.

The fact that the defined benefit schemes covered by this research had very high participation rates appeared to be self-perpetuating. Some members of these schemes stated that they had decided to join simply because many of their colleagues were also members (leading them to believe that joining was a good idea). The fact that everyone else seemed to be joining was not given as a reason for joining any of the other scheme types covered by the research.

Other reasons for joining the company pension scheme, mentioned by one or two individuals each were:

- pressure from parents (employees who were relatively young when they joined);
- needing life assurance and hence joining the pension scheme seemed a good way of 'killing two birds with one stone';
- having been a member of a previous employer's scheme and wanting to continue saving.

> *'I just started when my parents advised me to do so. You don't think much about the future when you are 26. In those days pensions were a fixed thing and my parents advised me to join.'*
>
> Female employee of small distribution company, aged 41

11.3 Reasons for deciding not to join pension scheme

Reflecting the reasons given for joining pension schemes, the reasons given for not joining mostly concerned personal or financial circumstances rather than features of the pension scheme itself.

Hence, some non-members stated that they had chosen not to join the company pension scheme (yet) because they currently had financial outgoings that would make it difficult for them to find money for contributions (for example because they were buying a house, had just had children – reasons given for joining a scheme as well – or were in the middle of divorce proceedings). Only a small number of these employees seemed to think that they would never be able to afford to contribute to a pension scheme – most envisaged their circumstances changing in the future to allow them to start a pension.

One female employee (aged 37) of a small catering company who had chosen not to join a Stakeholder with no employer contribution, stated that she could not afford to put money into a pension. *'We are on family credit and don't have any extra money to put into a pension, we'd have to put so much in to get something out that we haven't got a hope.'* She felt that, in any case, pensions were not a good investment and that maybe she would be better off investing in property.

> *'I've just taken out a mortgage so I think that I will hold back on starting a pension until my outgoings have been determined.'*
>
> Male employee of a medium-sized business services company, aged 28 (eligible to join GPP scheme with an employer contribution)

Others stated that they felt that they were too old for it to be possible to build up a 'reasonable' pension in their remaining working years (even though some with this view were anticipating working for another 15 – 20 years) – these individuals felt that it made more sense for them to rely on the state pension and perhaps to put money into some other form of investment. Some stated that they were unsure about how much longer they intended to stay at their current company and hence were not sure about whether or not it would make sense for them to join.

> *'I just don't earn very much so the benefits obtained just wouldn't be a viable proposition.'*
>
> Female employee of independent school, aged 55, eligible for GPP scheme with an employer contribution)

A few (mostly younger) employees stated that they did intend to join the scheme at some stage but simply had not got round to it. These employees did not consider setting up a pension to be a priority at the moment and seemed to feel that delaying establishing a pension for a few years would not ultimately make much difference to the pension that they would receive on retirement.

> *'There is no particular reasons why I haven't joined, I just didn't do anything about it when I heard about it. I ignored it. I got some pension scheme information but I did not read it in detail.'*
>
> Male employee of large water company, aged 32, eligible for final salary scheme

> *'It's been offered to me but I've been dragging my feet. It's my own fault but I am thinking of starting a personal pension now. It has not been a priority and I'm basically lazy.'*
>
> Male employee of a small manufacturing company, aged 29, eligible for a personal pension with an employer contribution

> *'No particular reason, I just didn't do anything about it. I ignored it. I had some pension scheme information but I did not read it in detail.'*
>
> Male employee of a large utilities company, aged 32, eligible for a defined benefit scheme

Some non-members stated that they had chosen not to join their employer's scheme because they already had either a personal pension or a pension from a previous employer that they felt would provide for them in retirement. Most of these employees were aged over 40. Interestingly, some of these individuals had chosen to continue with a personal pension (into which their employer did not make a contribution) rather than join a scheme to which their employer would contribute. A few others had chosen not to join because they were relying on their partner's pension to provide for them on retirement (these employees were all female).

However, some non-members had chosen not to join their employer's pension scheme because they felt that they did not understand enough about it. Generally, these employees were not able to give examples of particular features of the scheme that they wanted to know more about – rather they were looking for reassurance that their employer's scheme was the best option available to them. Most of these individuals did not seem to have taken any steps to obtain this reassurance – again joining a pension scheme was not particularly high on their list of current priorities.

A small number of non-members stated that they had chosen not to join their employer's scheme because they felt that pensions had become a risky investment in the light of recent stock market performances.

> *'I have not looked into it fully. I have been thinking I am too young but my girlfriend says I must join. I see it as a lottery – like investing in shares. In the news recently there have been so many people who are losing money in shares. You think you are investing for the future but with big name firms such as Nokia and BT wiping off billions from people's pensions it seems better to invest in ISAs at a fixed amount.'*
>
> Male employee of large water company, aged 23, eligible for final salary scheme

One young (aged 29) male employee of a medium-sized business services organisation stated that he generally felt *'apathetic towards pensions'*. He had concerns about tying up money with no guarantee of what the returns could be. He admitted to not having a great deal of understanding about pensions but felt that it might be better off investing in property as an alternative.

'The problem is that your investment might be fine for 30 or 40 years and then it could all crash'. This employee thinks in any case that he would not be able to afford contributions as he is currently buying a flat and this is taking all his money. He is 23 and eligible to join a Stakeholder scheme (without an employer contribution) run by a small consulting firm.

Only a very small number of current non-members (who were eligible for schemes without an employer contribution) mentioned that they had chosen not to join their employer's scheme because there was no employer contribution and hence '*nothing in it for them'*. These were the only employees who gave a reason for not joining that related to the quality of the scheme on offer.

Generally speaking, the reasons given by employees as reasons both for joining and not joining their employer's pension scheme backed up the view held by most employers that the type of scheme offered does not matter hugely because employees did not have a wide knowledge of the different types of scheme that were available. Most employees had made their choice about joining or not joining their pension scheme on the basis of their own circumstances rather than the quality of the scheme available. Even with defined benefit schemes, it did not seem to be the levels of benefit potentially available that attracted members so much as a sense of guilt brought about by seeing others join and also because the opportunity to join was presented as a 'one-off' decision rather than something that could be delayed until later.

11.4 Understanding of how pension schemes operate

Employees who were members of schemes divided fairly equally between those who had a good understanding of how their pension scheme operated, some knowledge or a poor understanding. Those with a good understanding were aware of the extent of both their own and their employer's contribution levels, how their final pension would be calculated and had a broad idea of how the fund was invested. The level of understanding of scheme operation was slightly higher among those who were members of defined-benefit schemes than among members of other schemes (and these individuals appeared to have a greater sense of 'belonging' to the scheme than those who were members of other schemes). Understanding tended to be higher among those in managerial/professional categories but, beyond this, there were no apparent differences in level of understanding by demographic characteristics of scheme members.

Understanding was much lower among non-members – many of those who were eligible to join a scheme but had not done so had a poor understanding (or no understanding at all) of the way in which the scheme that they were eligible to join operated. Levels of understanding generally seemed to be higher among male employees than among female employees.

Comparison of employees' own assessment of their level of knowledge with researcher assessments on the basis of the information that the individual was able to supply about how their pension scheme operated showed that employees were generally quite accurate in their own assessment of how much (or how little) they knew about their employer's pension scheme (and pensions more generally).

11.5 Views on how good their scheme is

Variation in the levels of understanding about their employer's pension provision meant that it was difficult for employees to comment on how they felt that the provision made by their organisation compared to other similar organisations. Generally speaking, this was not something that employees had thought about in any depth, since few had considered weighing-up employment opportunities on the basis of their pension provision. A few older members of defined benefit schemes stated that they felt that their employer's pension was particularly good. Most others seemed to think that their employer's provision was about average (regardless of the type of scheme or contribution levels) – some stated explicitly that they felt that the only employers who were probably providing better schemes were those in the public sector that they felt had 'special arrangements'.

Similarly, because most considered their employer's provision to be standard or average, the type of provision on offer did not impact greatly on how employees viewed the organisation that they work for.

In no cases did employees feel negatively about their employer because of the **type** of pension provision that they offered (although the fact that changes had been made to schemes led to some isolated negative feelings – as explored in Chapter 9). In most cases, the provision of employee benefits generally made employees feel more positively about their employer and the pension provision was seen to form one part of the overall employee benefits package. For many employees (and particularly those in younger age brackets) it was far from the most important aspect of this package with some individuals citing the holiday allowance, private medical insurance and sickness pay as more important contributors to their positive view of their employer. Where a defined benefit scheme was offered this seemed to have a greater positive influence on the way in which members viewed their employer than was the case for other types of provision.

11.6 Knowledge of and opinions on contribution rates

Some employees who were members of schemes with an employer contribution were aware of the level of contribution made by their employer to their pension plan. Awareness was lower among members of defined benefit schemes – indeed some members of these schemes were unsure about whether or not their employer made a contribution at all. Hence although general awareness and understanding about their scheme tended to be higher among defined benefit scheme members, on this particular issue the knowledge of members of other types of schemes to which their employer contributed tended to be slightly better. All of those in schemes without an employer contribution were aware that their employer made no contribution.

Generally speaking, in companies where employer contributions to the company pension scheme were tiered according to seniority/type of occupation, those that were receiving a higher rate of contribution were aware that they received a level of benefit over and above other employees while those on a lower rate were unaware that differential employer contributions were made. Hence, it would seem that differential rates are not advertised widely to employees and are not used as part of an incentive to strive for promotion but more a reward for achieving it.

Some members of schemes with an employer contribution stated spontaneously that they had decided to join because there was an employer contribution available. For some, the fact that a contribution was available had served the purpose of speeding up their decision to join because they did not want to 'miss out' on taking advantage of any employer contributions. When prompted about the role of employer contributions, most members stated that the fact that their employer did make a contribution was at least quite important in their decision to join the scheme (even though they were unsure about the exact level of this contribution). These included;

In a medium-sized care organisation, four members of a GPP scheme with a five per cent employer contribution all stated that the employer contribution was an important factor in encouraging them to join the scheme. Two investigated the possibility of taking out a personal pension instead but decided upon the employer scheme because of the employer contribution.

A young (aged 30 years) female member of a Stakeholder scheme (with an employer contribution) joined the scheme as soon as she was eligible as '*it seemed the sensible thing to do as the firm contributed'*. She has recently become concerned about the fall in fund values, but felt she was still net better off than if she had taken out a personal pension, because of the employer contribution.

11.7 Linking pension contributions and salaries

Interviews with employees seemed to back-up the view held by employers that most employees did not make a link between pension contributions and wages to the extent where they viewed a contribution made by their employer into their pension as a part of their salary package.

The fact that many employees were unsure about the level of employer contribution to their scheme demonstrates that pension scheme contributions were not considered as seriously as salary levels. Some employees in schemes other than defined benefit arrangements were unaware of the level of employer contribution into their scheme and hence were unaware of the total amount in their pension funds and how this would impact on their income in retirement. Some employees seemed to be paying into their schemes in blind faith that *'things would turn out OK in the end'*.

Awareness of employer contribution levels to defined benefit schemes was particularly low and hence few members of these schemes could put a figure to the 'extra salary' that they were obtaining through pension scheme membership. This is not to say that these individuals did not value the pension scheme offered, just that they were unable to quantify its value in this way.

There were a small number of members of schemes, other than defined benefit arrangements, who did speak in these terms, stating that if they had chosen not to join their employer's scheme then they would have been missing out on X per cent of their salary. As discussed earlier, these employees felt that failure to join the scheme would be equivalent to deciding not to accept money that they were entitled to. However, most did not think in this way and viewed joining a pension scheme more as something that was (or would if they joined) cost them money rather than a way of maximising the value of their salary.

Furthermore, a small number of employees had received a total benefits statement which had demonstrated to them the additional value that pension contributions make to their salary and seemed to have made them value their employer's contribution more.

11.8 Understanding of tax relief on pension contributions

Some employees understood fully the implications of the tax relief that they received on the contributions made to their pension scheme. Others had a vague idea that there was some form of tax benefit from being a member of a pension scheme but were unsure about how this worked. The remainder were unaware of any form of tax relief, including nearly all non-members interviewed. Younger employees were also less likely to be aware of the tax relief on pension contributions.

A lack of awareness of pension tax relief means that this will not be factored into these employees' decisions about whether or not they can afford to make (a worthwhile level of) contributions to a pension.

11.9 Employees' understanding of information received about pensions

Nearly all scheme members recalled receiving a brochure about the pension scheme offered by their organisation at around the time that they joined. Most current non-members also recalled seeing a brochure. However few read this in much detail. The majority stated that they did attempt to read at least some of the information in these brochures but did not seem to have managed to read it all. Most were put off by the length of the document, feeling that it was simply too much information to absorb (particularly since most received it at the time when they had just started a new job and hence were dealing with a lot of other paperwork and change generally). Others found the language used in these booklets too technical to follow. Some expressly commented that they would have found a much shorter *'bullet-pointed'* document which laid out the key features of the scheme more accessible.

> *'I would like more plain English in the detail – it all seems so complicated.'*
>
> Female employee of small manufacturing company, aged 52, non-member but eligible for GPP with an employer contribution

> *'There is a lot of financial jargon in there which people do not understand – it would be better to have an explanation – it wouldn't have to be in any great detail – just in simple terms, in everyone's language.'*
>
> Female employee of small distribution company, aged 41, member of GPP

> *'They did give me lots of information at the outset and I received all these thick booklets but I didn't read much of them. I would really have preferred some sort of bullet-point summary document.'*
>
> Female employee of small services company, aged 35, member of GPP

> *'I think that pensions are a bit of a minefield. Not everything was clear in my meeting with Andy (IFA), I did not fully understand all that it entailed. I read the literature but not as fully as I should have and only about a month or so later. It is not the most stimulating of topics!'*
>
> Male member of a small business services company, aged 38, member of a GPP

> *'It has to be in the right terminology for people to relate to it. I expect that what I got is woefully inadequate for a lot of people. My understanding is not brilliant…. I think that there should be different levels of literature for different levels of people.'*
>
> Female member of a large utilities company, aged 38, member of a defined benefit scheme

Only a very small number of members have referred back to this brochure at any stage since joining the scheme. None of the current non-members interviewed had done so.

A smaller number of people had a face-to-face meeting with either an internal Pensions Manager or a representative of the provider organisation at around the time that they joined the organisation. Employees, generally, found this helpful (essentially because it meant that they did not need to wade through the brochure provided). All who stated that they had had this meeting were members of (or eligible for) schemes with an employer contribution.

Most scheme members recalled receiving annual statements of the value of their pension fund since joining. Some felt that these should be sent out on a more regular basis (say every six months) – employees who felt that this would be better tended to be those who had more worries about the effect that the current state of the stock market was having on their pension.

A few felt frustrated that their statements were unable to tell them the likely pension that they would receive. A small number of less financially-knowledgeable members felt disillusioned with investment in a pension because these statements seemed to fluctuate so much – these individuals did not have a good understanding of the way in which pensions were invested and were unsure as to why the value of their pension fund was not simply the sum of the contributions made, plus a fixed rate of interest on top (this was the case even among a few members of defined benefit schemes).

A few employees stated that they would find these statements more helpful if they were to provide forecasts under different contribution scenarios so that they could gain a picture of the impact that increasing their contribution rate could have.

Apart from the employees that would have liked to see more regular statements, the only employees that would have liked to have seen pensions information on a more regular basis were members of defined benefit schemes who felt that their current scheme was under threat of closure and would have liked to receive reassurance from their employer that this was not the case. For example, one member of a final salary scheme in a small engineering company stated that she had been so concerned about the lack of information that she had received about the future of the defined benefit scheme (particularly in the light of media coverage about these schemes) that she had sought out an employee trustee to obtain reassurance that her scheme was not about to close down.

11.10 What information could persuade non-members to join?

Most employees, who were not currently members of the pension scheme for which they were eligible, stated that there was no further information that they needed in order to reach a decision about whether or not they should join the scheme. This reflected, as discussed earlier, that decisions about not joining schemes revolved mainly around personal circumstances rather than issues to do with the schemes themselves. Some of these had made a concrete decision not to join at all because they felt they had sufficient investments for retirement elsewhere or because they could not afford to join until their personal circumstances changed. Others (generally younger employees) felt that pensions simply were not a priority for them at the moment and that they would revisit the information that they had when they had more time.

Those who said that they would like more information were essentially looking for one of two things:

- Reassurance that the scheme was a good one and that they would be well-advised to join it i.e. some sort of 'quality stamp' for the scheme. A few of these stated that they would be reassured if their employer were able to state unequivocally that they personally would be better off if they joined.
- A concrete figure for what they could expect to receive from the scheme as a final pension if they were to join.

> *'What would encourage me is a cast iron guarantee that money wouldn't disappear into a black hole'. 'You can never believe what you are told and you cannot be confident that you will get out what you put in from what you hear on the news.'*
>
> Female employee of small catering company, aged mid-forties, non-member but eligible for Stakeholder with no employer contribution

A small number of individuals (all aged over 50) stated that they did not need any more information from their employer but they were planning to speak to an Independent Financial Advisor before deciding whether or not to join their employer's pension scheme. These few employees were hoping that an IFA would be able to give them a definitive answer on whether or not they should join the scheme.

Only a minority of current non-members stated that they had been re-invited to join the company pension scheme at any stage since they were initially invited (either when they joined the organisation or when they became eligible). A small number (of those who had not yet joined the scheme because they had not got round to it) stated that if they were re-prompted about the scheme then that would probably prompt them to fill in their application.

11.11 Plans made by non-members for retirement

A lack of interest and understanding about pensions would perhaps be of less concern if other plans for funding retirement are being made.

Some employees, who had not joined the pension scheme offered by their employer, had made no other plans for financing their retirement. These employees were more likely to be aged under 30 and to have (vague) plans to join a pension scheme at some point in the future. These employees did not have any firm idea about the sort of timeframe over which they would be likely to join – they tended to just state that they would join *'when they were older'* or *'when they could afford it'*. There was a general understanding that delaying joining a scheme would mean that they would have less money to 'take out' when they reached retirement but no reference was made to the relative weight of 'early' contributions in determining the value of the final fund.

Some were relying on the investment that they had made in their home to generate a retirement income. Of the remainder, a number had some other form of pension – either a personal pension or a pension from a previous employer – or were relying on their partner's pension to generate income in retirement. The rest had some form of investment – in ISAs, annuities or other savings accounts. One was relying on inheriting money to finance retirement.

For example, one female employee of a large manufacturing company (aged 54) who was eligible for hybrid money purchase/final salary scheme stated that she chose to pay money into a savings account rather than start a company pension when she joined the organisation two years ago. She felt that she had enough investments already (two frozen pensions, an ISA and an investment bond). She was not totally sure that she had made the right decision but she felt safer having it in a savings account.

12 Conclusions

In the past, pensions have largely been offered for paternalistic reasons. However, it appears that this paternalistic attitude towards pension provision is diminishing as employers are coming under increasing pressure to justify the costs involved in providing pension schemes. This is leading them to increasingly focus on attempting to justify the value of their pension scheme in terms of recruitment and retention benefits. However, employers currently lack concrete evidence of these benefits, particularly in terms of retention value. The research findings suggest that pension benefits *per se* are not a strong retention tool for most employees, but do, along with other benefits, contribute to positive view of the employer, which in turn promote retention. This could usefully be communicated to employers.

Most employers do not feel that all their staff value pensions in the same way. This view, coupled with the increasing need to justify the financial return on investment in pensions, is likely to lead to a greater incidence of tiered pension provision targeted at groups that are particularly difficult to recruit and/or categories of staff that are seen to particularly value pensions (for whom there is a possible retention value). This is likely to mean that those at the lower end of the pay spectrum are offered less in terms of pension provision than other categories of staff.

Some employers are planning to make more of the (type of) pension scheme that they offer in job advertisements (at least for certain categories of staff) to try to increase its recruitment value. Employers thinking in this way include those with defined benefit schemes who realise that these are now a 'point of difference' and those with other schemes with an employer contribution who no longer feel that their schemes are a 'poor relation' to their competitors (now that many defined benefit schemes are being closed).

Some employers are looking to increase the value that employees place on pension provision by issuing total benefits statements demonstrating to employees the 'added salary' that the employer is providing them with by contributing to their pension. The hope is that this will increase the value placed on pensions. It is also possible that these statements could be used to demonstrate the contributions being 'missed out on' by employees who have not yet joined schemes. They may also be able to raise awareness of the tax relief that pension contributions attract – awareness of this tax relief was quite low among non-members. Highlighting the difference between what the employee actually contributes and what it is 'worth' (allowing for tax relief and the employer contribution) may help to break down the perception that pensions are a 'cost' not a benefit to employees.

Employees generally find the information that they are provided with about pension provision when they join an organisation is quite daunting in length and difficult to follow. They would prefer to see a very short document, highlighting the key features of the scheme. Given that employees choose to join pension schemes because they feel they should start/continue saving for retirement and can afford to, detailed booklets about the scheme are not an effective promotion tool and should be provided alongside a short summary document, for those that want more detailed information and future reference. This short summary might also usefully highlight the difference between the actual cost to the employee and its value, as discussed above.

Employers with defined benefit schemes feel that these schemes are increasingly fragile and most are unsure about their long-term future. The changes that are being made to defined benefit schemes are largely driven by a need to contain costs and better manage longer-term risks. The actual timing of changes is often driven by internal restructuring, sometimes as a result of mergers and acquisitions activity. Otherwise it is the routine valuation. Legislative changes, in particular the Minimum Funding Requirement (MFR), FRS 17 and, to a lesser extent, the increasing cost of scheme administration have had a strong influence in bringing to the fore these concerns within organisations..

Where current deficits do not appear too huge, efforts have been made to restructure defined benefit schemes in terms of contribution levels or benefits in order to keep them open. Employers, who had opted to close schemes to new members, did not always seem to have explored the full range of alternatives to this (some had considered both employer and employee contribution increases but not much more than this). Employees, generally, seem to have accepted these changes without withdrawing from the schemes and in fact were often grateful that their scheme had not been closed. Raising awareness of the alternatives available and employee acceptance of these changes may be of benefit, not just in keeping defined benefit schemes open to new members but also helping to prevent overall closure of schemes. It is increasingly being recognised that just closing schemes to new members will not sufficiently contain costs and restructuring of contribution rates and benefits is a more effective long-term solution.

Where defined benefit schemes have been closed to new members, they have usually been replaced by other schemes with an employer contribution. The level of employer contribution to these replacement schemes tends to be lower than the level paid into the defined benefit scheme ***in recent years,*** but remains at the top end of the spectrum for employer contribution rates to schemes generally***.*** Employee wages have not been adjusted to reflect this difference in contribution levels, largely because the employer is under pressure to reduce costs. Some employers in this situation have increased their contribution rates to the other schemes with an employer contribution to (start to) rebalance benefits between staff and this option might also be usefully promoted as a way of retaining higher contribution rates in the future.

Where employers have introduced Stakeholder schemes purely to meet regulatory requirements, there tends to be no employer contribution or ‘buy in’. The scheme is perceived to be of little value and little or no effort is made to promote it to employees. Where this Stakeholder provision is ‘additional’ to other schemes, then it tends to be covering ‘non-core’ employees that the employer does not feel are interested in pensions. Many of these schemes have remained empty or are simply used for additional voluntary contributions (AVCs).

Most changes to pension schemes have been communicated to employees through a range of means. (Where the employer contribution only has been increased into defined benefit schemes this is sometimes not communicated to employees). Generally speaking, more personalised communication i.e. individual letters, one-to-one meetings or small group presentations seem to have been most effective in conveying the changes that have been made. Employees tended to have a good understanding of how changes affect them in the immediate term (although perhaps less of a grasp on what the implications might be for the future). Where changes to defined benefit schemes have been made, there needs to be much greater (continued) communication after the initial announcement, recognising that the changes have increased members' concerns about the health of the scheme and its continuation in the longer term.

Very few employers have formal policies on late retirement in place although most have allowed some employees to retire late when it has been advantageous to them. They will need convincing to put in place a formal policy on late retirement as, broadly speaking, they feel that it is in their interests to have employees retire at their current normal retirement age to allow for an 'injection of new blood'.

Similarly, only a few have flexible retirement policies in place although most stated that they would be prepared to try to accommodate flexible working in the run-up to retirement if it were requested of them.

There is not much evidence of very joined-up thinking around pensions and retirement from either employer or employee perspectives. A few employers have been made to think about the two issues together when they have been looking to contain the costs of their pension schemes – leading one employer to cap the joining age for their scheme and another to remove the early retirement option.