NAPF

Securing the future of pensions

Workplace Pensions: The Personnel Perspective

HR Managers' Views on Pensions

NAPF Research Report

August 2008

Contents

Key points

Why do employers offer pensions? 91% of respondents feel that offering a pension helps to position their company as a responsible employer. 89% believed that they have a duty as employers to help employees prepare for retirement.

Pension concerns: 77% of HR Managers are concerned about the high cost of pensions both now and in the future.

Competitors: Only 15% of respondents felt that they offered a better pension than competitors on the grounds that pensions are a key labour market differentiator. Most respondents (51%) were happy to offer a pension comparable to competitors.

Lack of understanding: 60% of HR Managers felt that staff did not understand pensions and retirement issues very well or "at all well".

Reasons for not joining: 54% of HR Managers believe that employees do not join the pension scheme because they think it is more important to have the money rather than save. 45% of employees do not join the scheme because they feel that they cannot afford the contributions, according to respondents.

Ideal remuneration: When asked about the ideal remuneration package which they would like to offer, the average response from HR Managers was 78% of salary, 11% of pension and 11% of other benefits.

Effective communications: One to one advice from a financial adviser is considered the most effective communication method.

Concerns on liability: 40% of HR Managers are not concerned about being held liable for employee decisions on pensions as a result of information they impart. However, 35% do have concerns about the issue.

Future pensions risk: In the future, almost three-quarters (71%) of employers will leave more risk with the employee so the cost is predictable for the company.

2012 reforms: In response to 2012 reforms, 49% of respondents believed that their companies would maintain existing arrangements for both existing and new employees rather than switching to Personal Accounts. However, 18% of respondents felt that they would switch to Personal Accounts – some just for new employees and other for both new and existing employees.

Introduction

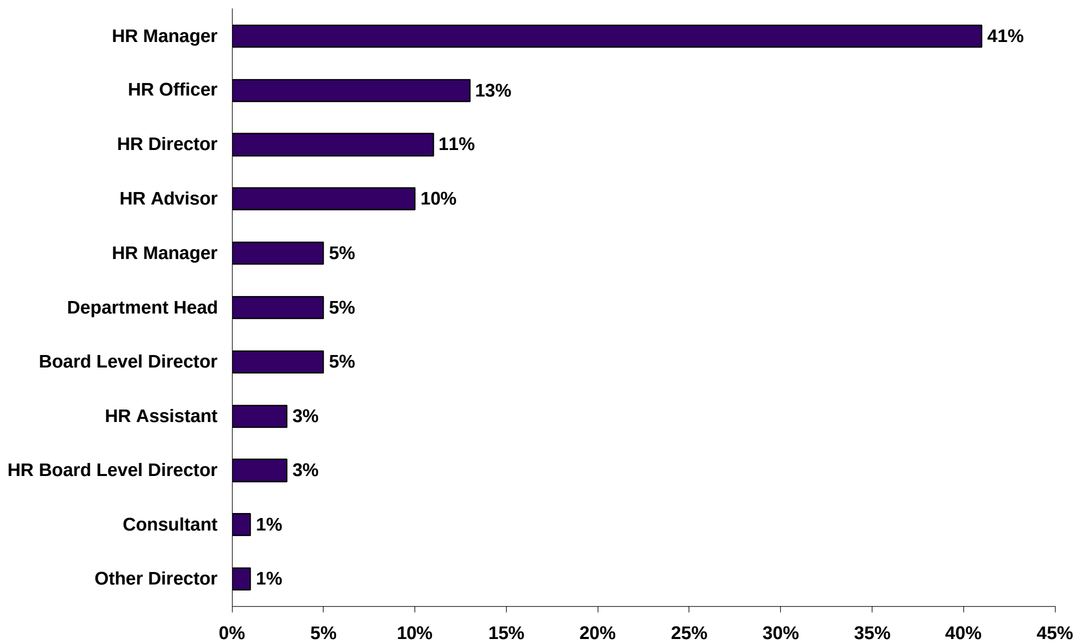
The purpose of the research was to examine the attitudes of Human Resources (HR) Managers toward pensions and employee pension schemes. The central aims were to:

1. Identify the type of pension scheme offered by companies and why they offer a pension.
2. Identify concerns that HR professionals have about pensions.
3. Explore the opinions of HR professionals on future developments in pensions.
4. Understand employee attitudes toward pensions.

Who responded?

The work was undertaken in conjunction with Personnel Today. A representative sample was drawn from a database of over 30,000 HR contacts which was supplied by Personnel Today. 332 people responded to the survey, providing a robust sample. Although there was some variance in job titles, all respondents were directly involved in managing human resources decisions for their company.

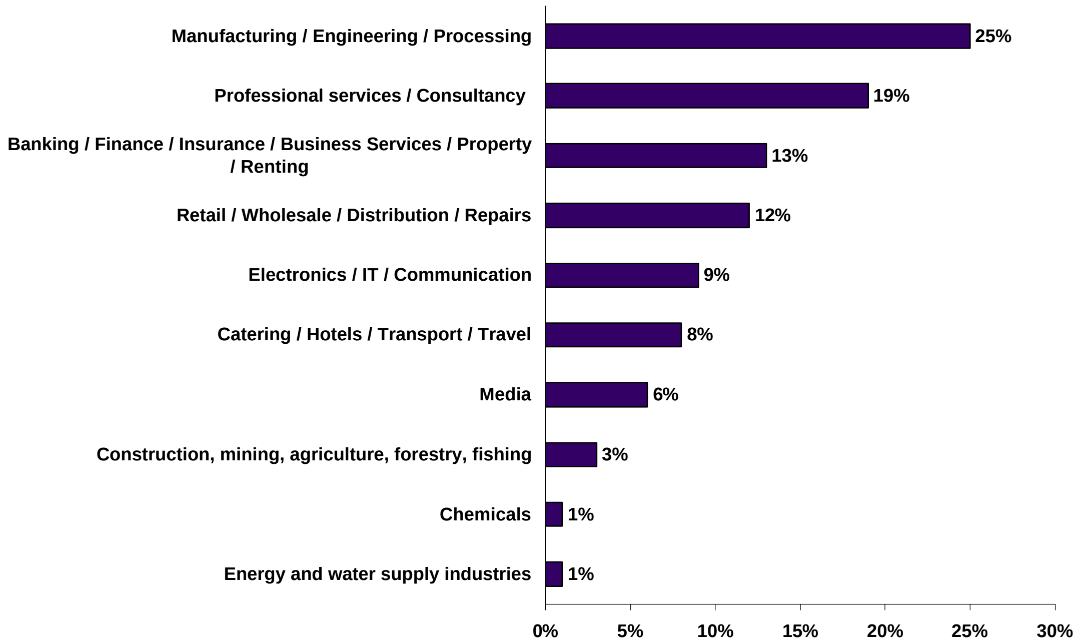
Fig.1 Job titles of respondents



Base: All respondents (332)

Respondents came from a wide range of private sector industries – with manufacturing and professional services being the most popular.

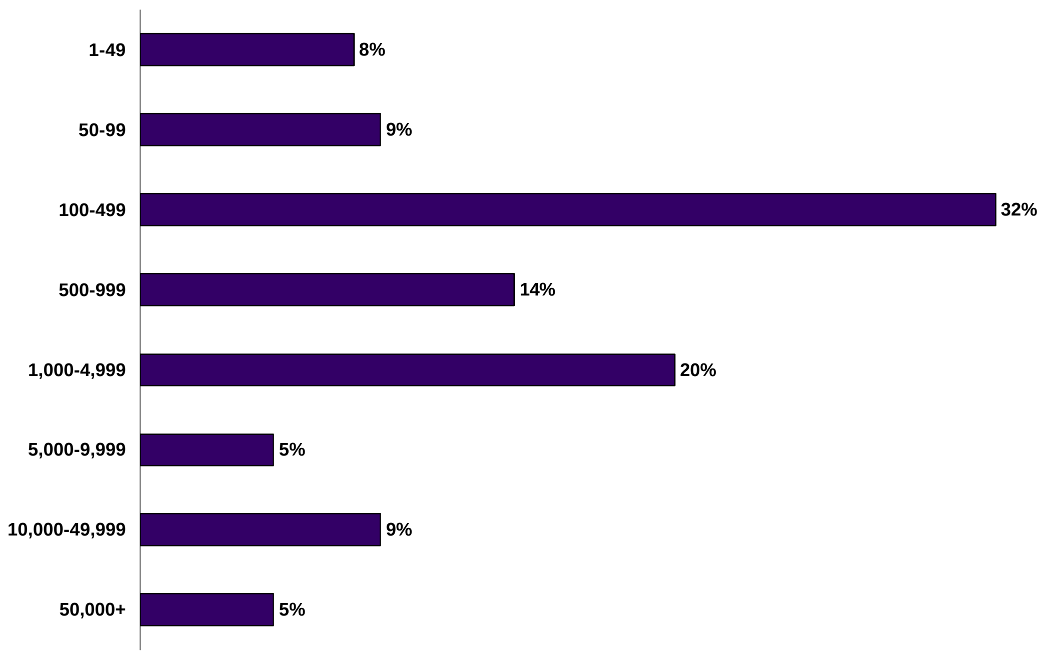
Fig. 2 Main business, product or service of organisation



Base: All respondents (332)

The average company size of the HR managers responding was 9,058 employees. Most respondents, however, came from small or medium-sized companies with less than 5,000 employees.

Fig. 3 Company size by number of employees



Base: All respondents (332)

What do HR Managers think about pensions?

Key findings

- 91% of respondents feel that offering a pension helps to position their company as a responsible employer.
- 89% believed that they have a duty as employers to help employees prepare for retirement.
- 77% of HR Managers are concerned about the high cost of pensions both now and in the future.
- Only 15% of respondents felt that they offered a better pension than competitors on the grounds that pensions are a key labour market differentiator.

HR opinions on pensions

In order to gauge the opinions of HR Managers on how they feel about the pension offered at their company, respondents were given a series of statements about pensions and asked to what extent they agreed.

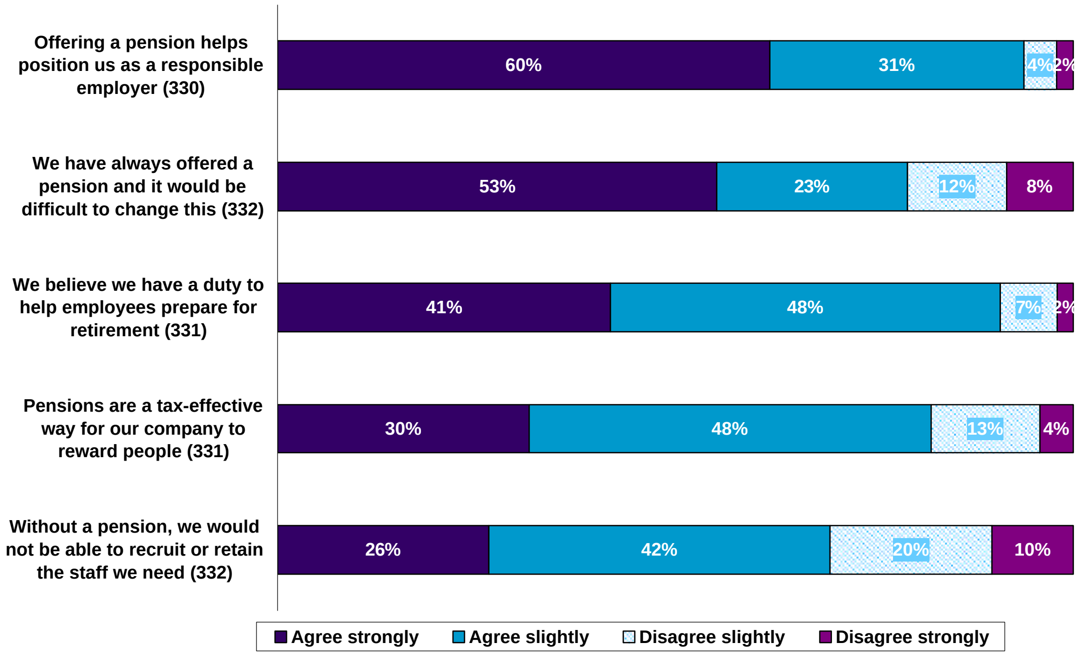
The strongest factor in offering a pension to emerge was that pensions help companies to position themselves as a responsible employer. Over 90% of respondents agreed to this statement and 60% of these agreed strongly. HR Managers also felt that the company had a duty to help employees to prepare for retirement – with 89% agreeing either slightly or strongly with this statement.

There is a significant proportion of employers for whom pensions are firmly established in the corporate identity of the company. 53% of respondents strongly agreed that a pension was something which their company had always offered and that they would not change the situation now.

26% of respondents agreed strongly that a pension is an essential tool for recruiting and retaining the staff required by their company. Only 30% strongly agreed that the tax benefit advantages of pensions made it an effective way to reward employees, although a further 48% agreed slightly with this statement.

The responses indicate that HR Managers feel that pensions are a duty or responsibility to their staff although for some respondents pensions are also a positive way to recruit new employees or reward existing staff.

Fig. 4 HR Managers' opinions on pensions



Base: All responding to each statement (base sizes as shown)

Pension concerns

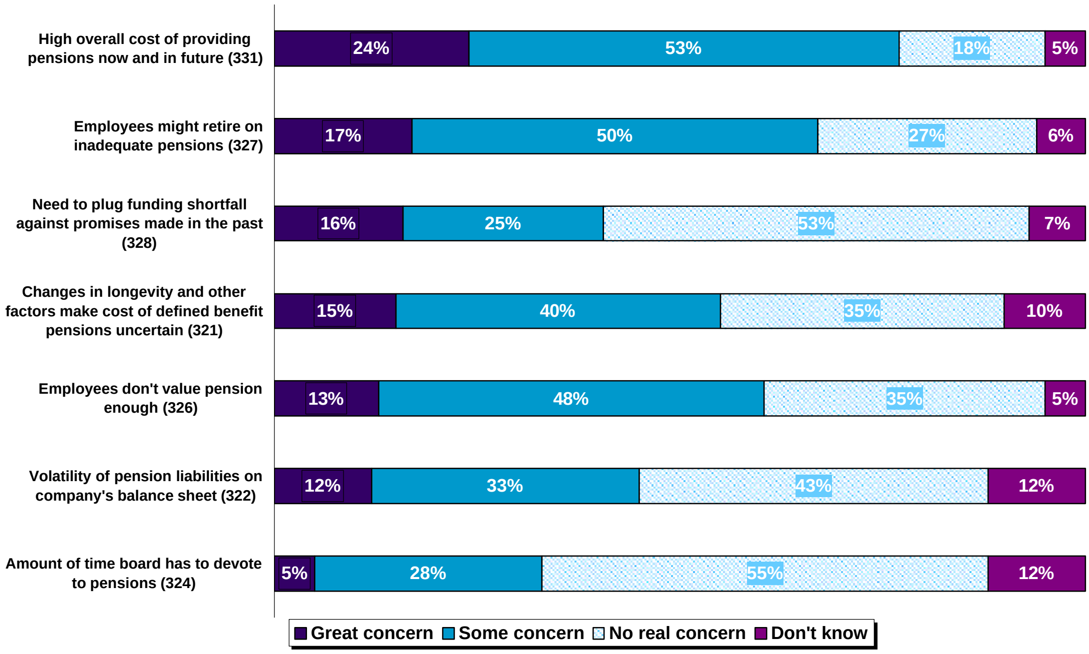
The HR Managers were then asked about their concerns on company pension arrangements. It is clear from the responses that the cost of pensions is the main concern. 24% cited the cost of providing pensions now and in the future as being of great concern, with a further 53% being somewhat concerned about this cost. Only 18% of respondents felt that this cost was of no great concern to them. There were more mixed responses to the issue of funding shortfalls. While 16% of respondents were greatly concerned about this issue, 53% felt that it was of no real concern to them.

A significant concern was that employees may retire on pensions that are inadequate to support them. 17% of HR Managers were greatly concerned about this issue with a further 50% being somewhat concerned. 42% of respondents who agreed strongly that pensions helped to position them as a responsible employer were concerned that their employees may retire on an inadequate pension.

The majority of HR Managers felt that employees did not value pensions enough, but only 13% of respondents thought that this issue was of great concern.

The responses indicate that HR Managers are not particularly concerned about pension liabilities on the balance sheet or the amount of time which the company board has to devote to pensions. This may reflect the fact that HR Managers tend not to be directly involved with company finances or the board. Finance Directors tend to be more concerned about liabilities. A recent NAPF survey found that FDs, particularly those with DB schemes, were concerned about making up scheme shortfalls as well as the volatility and uncertainty of pension liabilities on the company balance sheet[1].

Fig. 5 Concern about pension arrangements



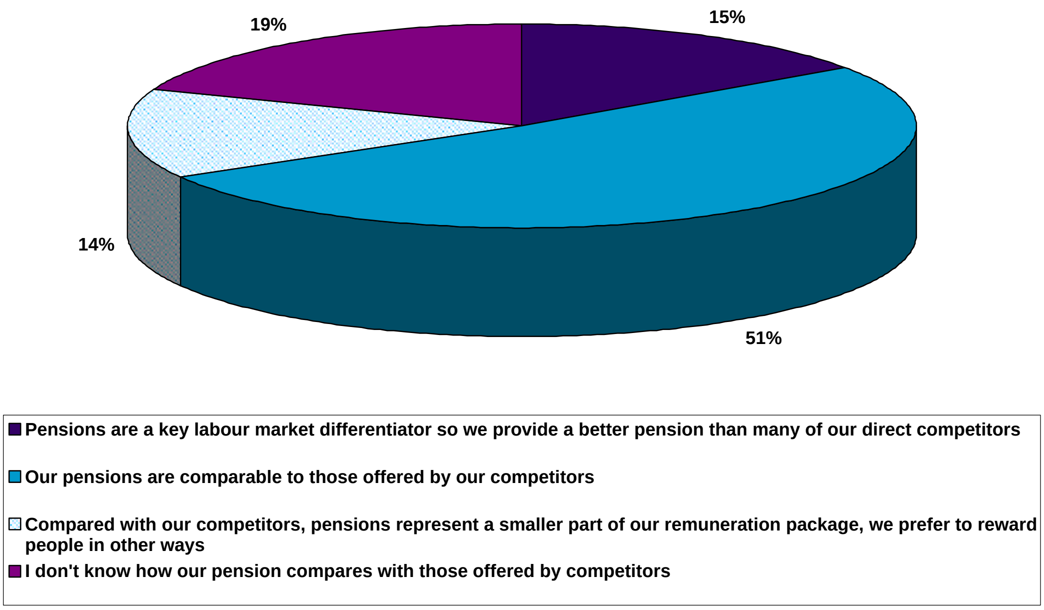
Base: All responding to each option (base sizes as shown)

Pensions and competitors

Respondents also gave their opinion on the pension scheme that their company currently offers in relation to competitors in the labour market. A 52% majority considered their pension to be comparable to those offered by competitors. 15% of HR Managers felt that a pension can be a key market differentiator and so their pension offer was better than their competitors. Only 14% of HR Managers did not consider it important to offer at least the standard market pension offered by competitors.

[1] NAPF, *Finance Directors and Pensions: A View from the Boardroom* (2008)

Fig. 6 Company pension offer and labour market competitors



Base: 306 respondents

For those respondents from companies which offer a DB scheme to employees, 48% felt that their pension was a better offer than that of competitors while 45% felt that their pension offer was comparable. Over half of respondents from companies which provide a contract-based pension with no employer contribution felt that their pension was a smaller part of the remuneration package than that offered by their competitors.

Pensions and the employee

Key findings

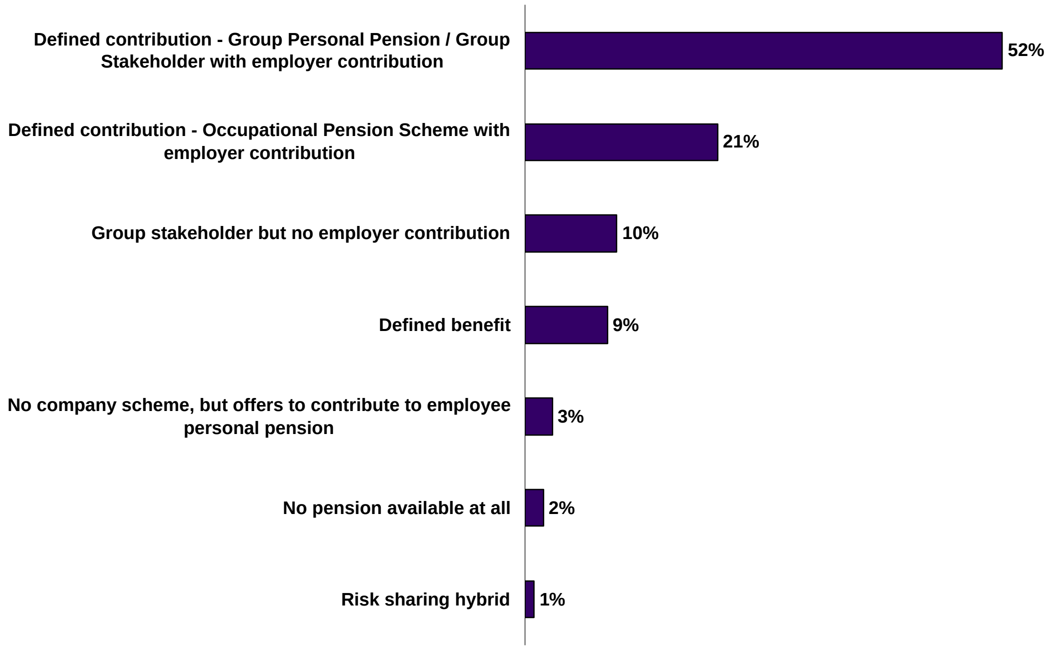
- Over half of respondents (52%) said that their company offers a DC Group Personal Pension or Group Stakeholder with an employer contribution to new employees.
- Nearly half of respondents (46%) felt that their employees did not understand the pension offered or retirement planning issues well, while 14% said that their employees did not understand the issues at all well.
- 54% of HR Managers believe that employees do not join the pension scheme because they think it is more important to have the money rather than save
- 45% believe employees do not join the scheme because they feel that they cannot afford the contributions.

Type of pension

By far the most popular pension made available to new employees was a DC Group Personal Pension or Group Stakeholder pension with an employer contribution. 52% of respondents said that this was the pension which they offered to new staff. 21% said that they offered an occupational DC pension scheme with employer contribution.

10% of HR Managers said that their company facilitates a group stakeholder pension but that the company does not make any contribution whatsoever to the scheme. In 9% of cases, a DB scheme is made available to new employees and just 1% of respondents provide a risk-sharing hybrid.

Fig. 7 Type of pension most often made available to new employees

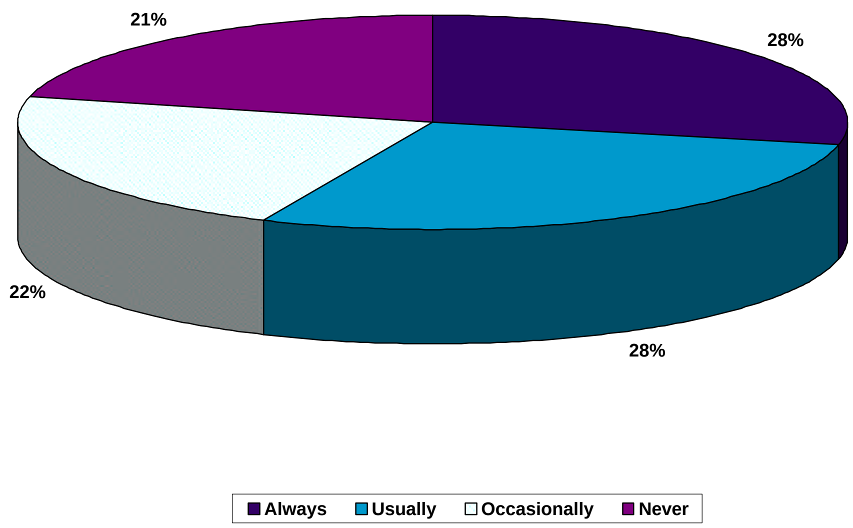


Base: All respondents (333). However, 3% offered no company scheme but contribute to employee personal pensions and 2% offered no pension at all.

Job advertisements

In order to measure how important pensions are in attracting new staff, respondents were asked whether or not the pension offer is promoted in job advertisements. 28% stated that the company pension is always promoted in advertisements and another 28% said that it was usually promoted. There were 21% of respondents who never advertised the pension offer.

Fig. 8 Is the company pension promoted in job advertisements?



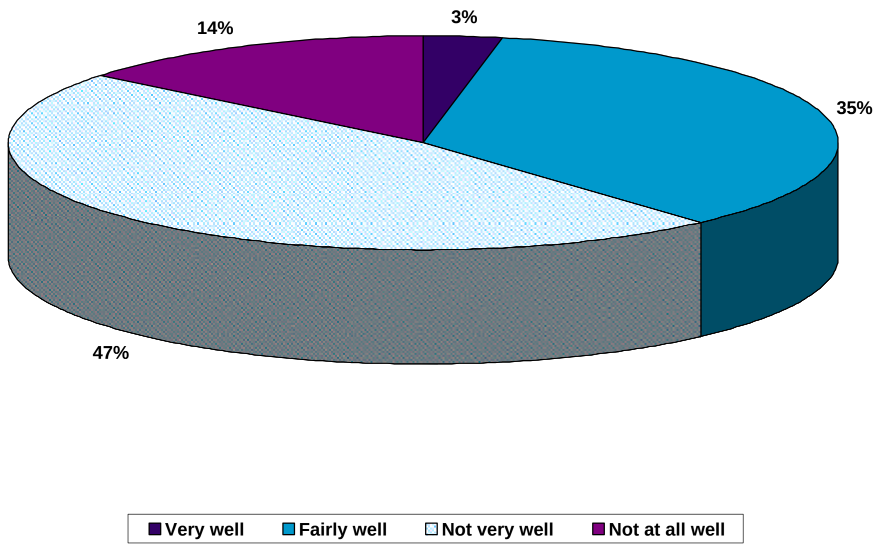
Base: 331 respondents

Employee understanding

HR Managers were asked about their employee attitudes in relation to the pension offered. In terms of employee understanding, nearly half of respondents (46%) felt that their employees did not understand the pension offered or retirement planning issues well, while 14% said that their employees did not understand the issues at all well.

Perhaps the most worrying response was that only 3% of HR Managers felt that employees in their company understood pensions and retirement planning very well.

Fig. 9 Employee understanding of pensions and retirement planning issues



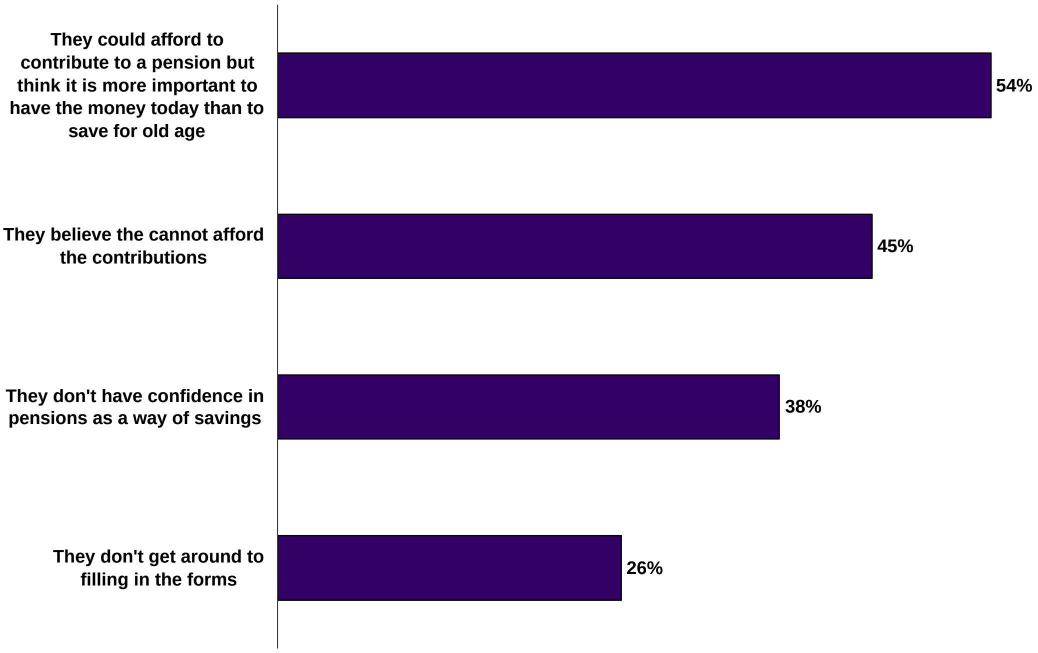
Base: All respondents (332)

Reasons employees do not join the pension scheme

HR Managers were then asked to consider reasons why employees do not join the pension scheme offered at their companies. The largest percentage response was that while employees could afford to contribute to a pension, they felt that it is more important to have the money in hand rather than save for old age.

45% of respondents thought that employees do not join the pension scheme because they believed that they could not afford the contributions. Another 38% felt that their employees did not have any confidence in pensions as a way of saving.

Fig. 10 Reasons why employees do not join the pension scheme on offer



Base: 313 respondents

An interesting figure to emerge is that a full 26% of employers believed that their employees do not join the pension scheme which they offer because they do not get around to filling in the forms. With the introduction of auto-enrolment in 2012, this reason for employees not joining a scheme will be rectified.

Communications

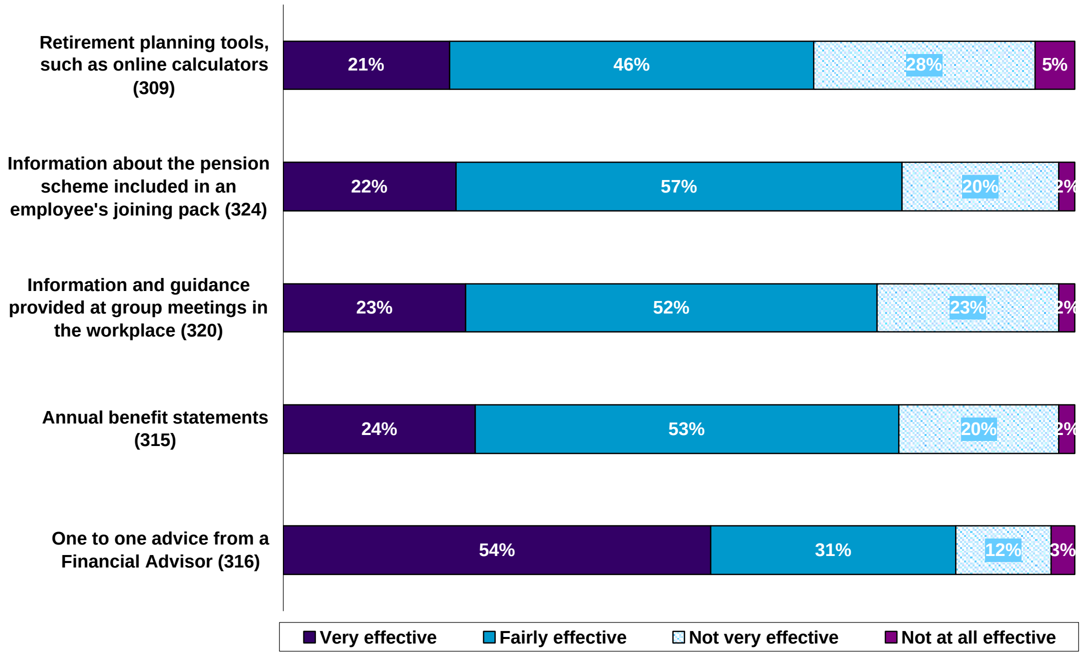
The communications process is essential in order to improve company employees' understanding of pensions. HR Managers were asked what they thought the most effective ways were of communicating with their employees about pensions to see how best to improve this understanding.

The responses indicate that one to one advice from a financial adviser is considered the most effective communication method by far. 54% of respondents thought this to be a very effective method and 31% saw it as being fairly effective. This was more than double the nearest other method for "very effective" responses.

24% thought annual benefit statements were a very effective method and 53% believed them to be fairly effective. Groups meetings which provide information and guidance on pensions were considered very effective by 23% and fairly effective by 52%.

The method of communication considered the least effective was the use of retirement planning tools, such as online calculators. While 21% thought these tools to be very effective and 46% thought them to be fairly effective, a full 28% considered them to be not very effective and 5% not effective at all.

Fig. 12 Effective methods of communicating with employees about pensions



Base: Respondents for each method of communication as shown

Pensions and the Employer

Key findings

- The average contribution rate to a pension made by employers is 5.87%.
- When asked about the ideal remuneration package which they would like to offer, the average response from HR Managers was 78% of salary, 11% of pension and 11% of other benefits.
- One to one advice from a financial Advissr is considered the most effective communication method.
- 40% of HR Managers are not concerned about being held liable for employee decisions on pensions as a result of information they impart. However, 35% do have concerns about the issue.

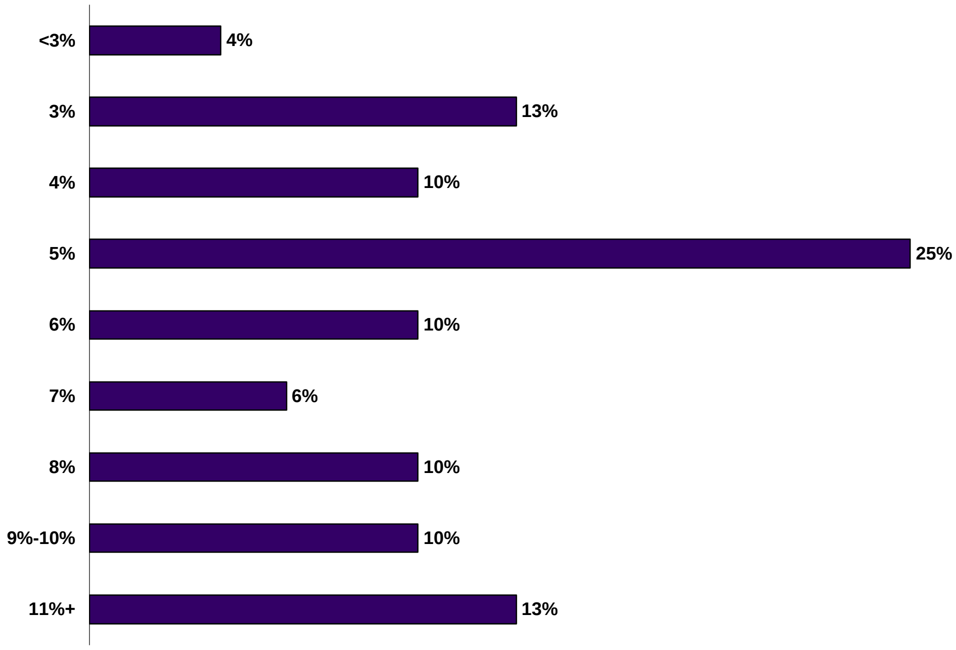
The survey also explored the attitudes of respondents from their point of view as employers in order to get a sense of how people who work in HR view pensions from their company's point of view.

Contribution rates

The range of contribution rates which employers pay varied but the most popular contribution rate was 5%, the rate offered by one quarter of companies responding. The average contribution rate was 5.87%. 13% of employers paid a rate of 11% or over. In the NAPF Annual Survey, the mean contribution rates were 7.3% for employers and 4.1% for employees[2].

[2] NAPF, *Annual Survey* (2007)

Fig. 11 Employer contribution rate offered to new employees (as a % of pensionable pay)



Base: 280 respondents

In addition to being asked about actual employer contribution rates, HR managers were asked about their ideal company remuneration package in terms of the percentage devoted to salary, pension and other benefits.

The overall average of responses from HR managers was a preferred remuneration package of 78% given to salary, 11% given to pension and the remaining 11% given to other benefits. The current average contribution rates to private sector occupational schemes on behalf of employers are 14.6% for DB schemes and 5.8% for DC schemes.

49% of respondents felt that the pension should account for between 10% and 19% of the overall company remuneration package for staff. This was the most popular response. Higher contributions to pensions from employers were not popular – just 12% felt that companies should ideally be contributing between 20% and 29% and a further 2% felt that pension contributions should exceed 30% of the overall package.

35% of HR Managers thought the ideal employer contribution should be between 5% and 9% and 2% considered the ideal pension employer contribution to be between 1% and 4%.

Table 1. Ideal company remuneration package

Percentage devoted to					
Salary		Pension		Other Benefits	
< 70%	9%	1-4%	2%	1-4%	7%
70-79%	30%	5-9%	35%	5-9%	24%
80-89%	42%	10-19%	49%	10-19%	51%
90-99%	18%	20-29%	12%	20-29%	15%
100%	0%	30%	2%	30%	2%
Average: Salary **78%**, Pension **11%**, Other benefits **11%**					

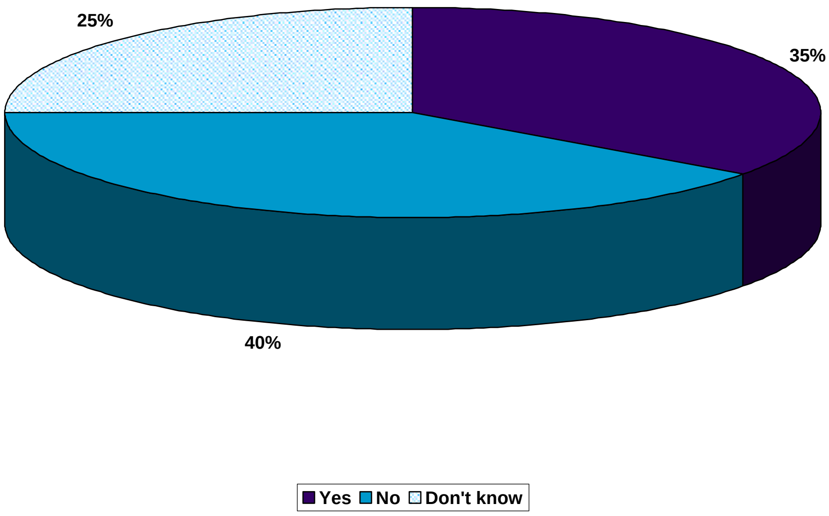
Base: The number of respondents for each benefit varied slightly – Salary (279), Pension (272), Other benefits (264)

Concerns about giving pensions information

Allied to the issue of communicating about pensions is whether or not employers are concerned about being held liable for unsuitable choices made by employees. The issue may prevent some employers from divulging as much information on pensions as they can.

Responses to the survey indicate that while 40% of HR Managers are not concerned enough about the issue to prevent them from giving employees information on pensions, 35% are concerned and 25% do not know.

Fig. 13 Do concerns about being held liable for unsuitable choices made by employees prevent you from giving as much information about pensions?



Base: 324 respondents

Pensions in the Future

Key findings

- In the future, 71% of employers will leave more risk with the employee so the cost is predictable for the company.
- In response to 2012 reforms, 56% of respondents felt that their companies would auto-enrol staff at the same level as employees who join the scheme.
- However, 18% of respondents felt that they would switch to Personal Accounts – some just for new employees and other for both new and existing employees.
- 49% of respondents believed that their companies would maintain existing arrangements for both existing and new employees rather than switching to Personal Accounts.

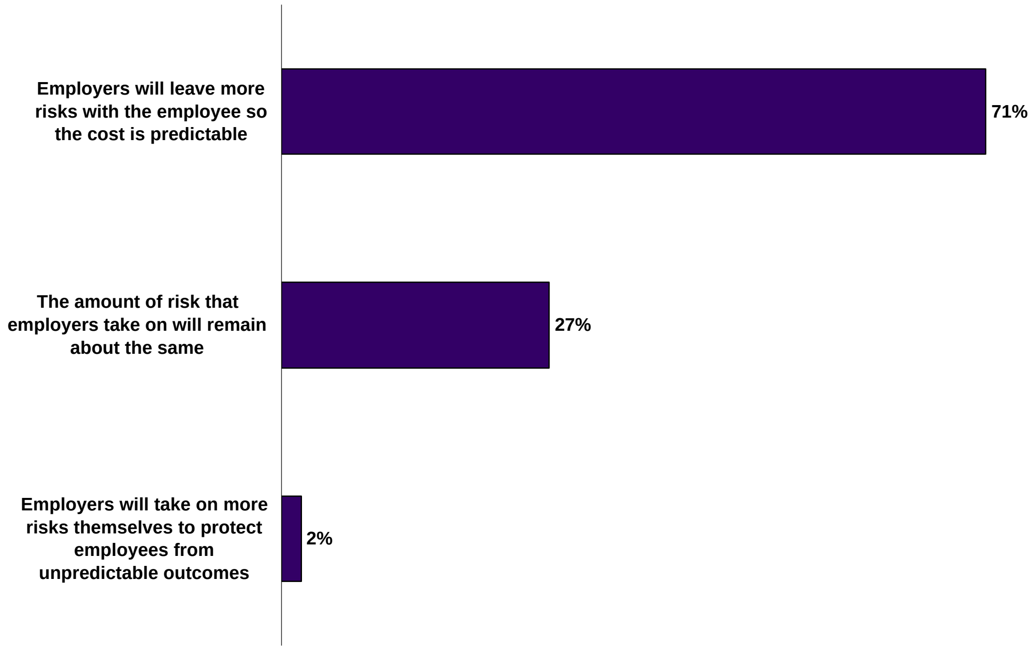
For the final part of the survey, respondents were asked to give their opinions on pensions in the future and how their company will act on the level of risk and react to pensions reform in 2012.

Level of risk

A certainty for the future in terms of how employers will react to pensioners is that more of the risk will be passed on to the employee so that the cost of providing a pension is predictable for employers. Almost three quarters (71%) of HR Managers said that in the future they thought employers would be passing more risk onto the employee. This suggests a further move away from DB towards DC.

Only 2% of respondents felt that employers would be willing to take on more risk in the future in order to protect employees from unpredictable outcomes. The remaining 27% believed that the situation would remain level and employers would take on the same amount of risk in the future as they do now.

Fig. 14 The level of risk employers will be prepared to take on in the future



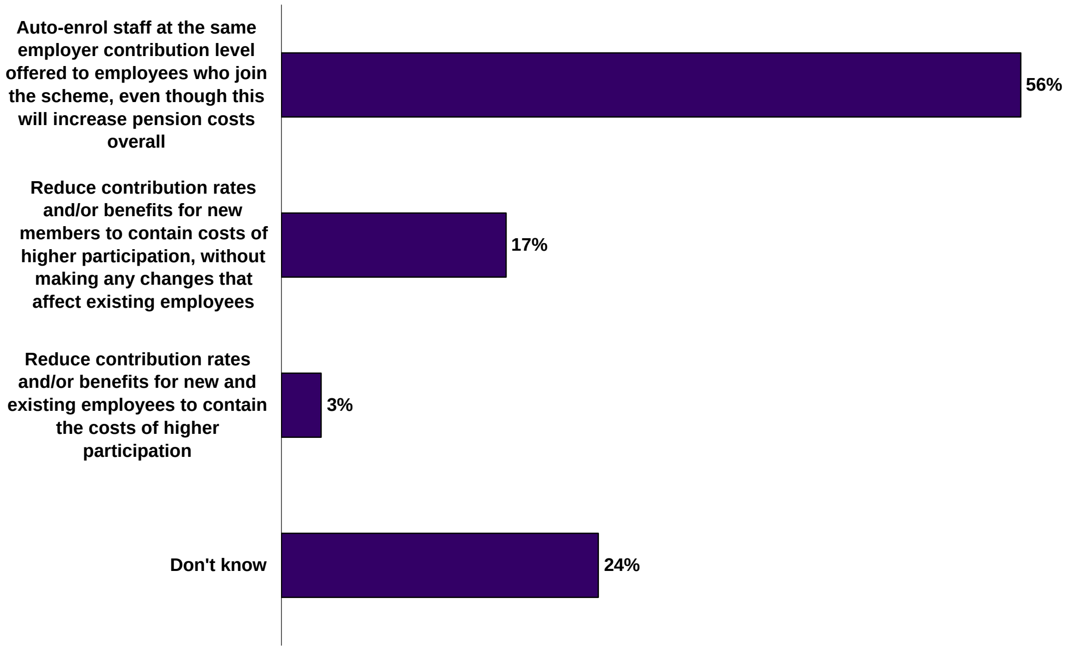
Base: 331 respondents

Auto-enrolment

HR Managers from companies who contribute more than 3% of salary into employees' pensions were asked for their thoughts on the approach their organisations will take in response to the requirement that from 2012 employers will be required to auto-enrol employee into a pension. 24% of respondents did not know what approach their companies would take in response to 2012 auto-enrolment.

Of the respondents who voiced an opinion, results show that there is a risk of levelling down as a response to the reforms. 56% said that their companies would auto-enrol staff at the same level as employees who join the scheme. 17% believed that their organisation would reduce contribution rates and / or benefits for new members to contain pension costs but would not make changes that would affect existing employees. A further 3% thought that their organisations would reduce contribution rates and / or benefits for both new and existing employees.

Fig. 15 Approach organisations will take in response to the 2012 employee auto-enrolment into a pension



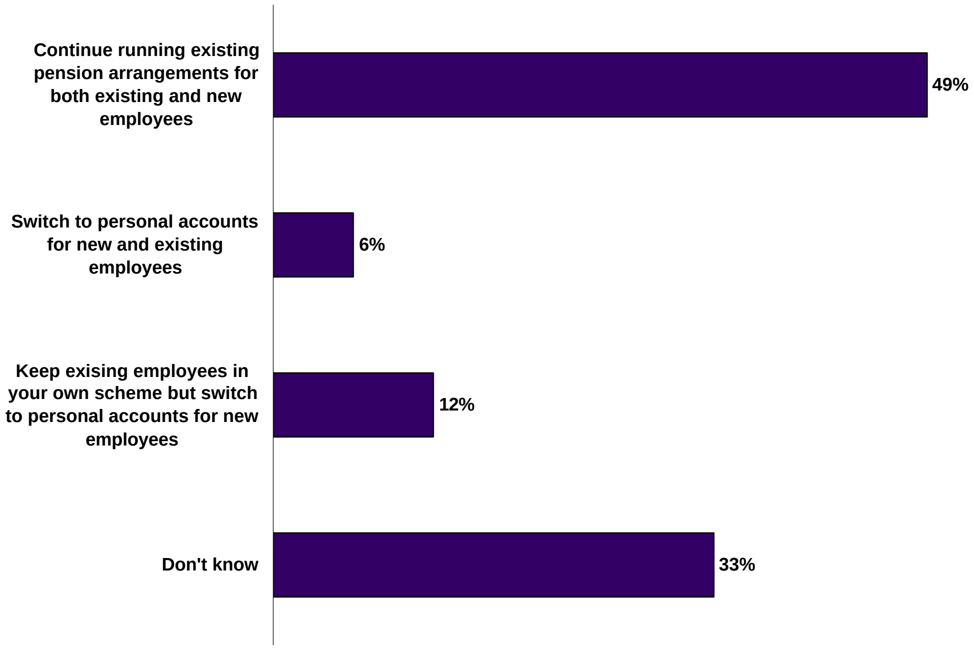
Base: Respondents contributing more than 3% of salary to employees pension (232)

Personal Accounts

HR Managers were also asked about the approach which their company would take in response to the new Personal Accounts scheme to be introduced in 2012. One third of respondents did not yet know the approach that their company would take when Personal Accounts are introduced. Nearly half of respondents (49%) believed that their companies will maintain the status quo and continue running the existing arrangements for both existing and new employees.

Once again, results show that there is a risk of levelling down. 6% of HR Managers felt that their company would switch to Personal Accounts for both new and existing employees and 12% believed that they would keep arrangements for existing employees but switch to Personal Accounts for new employees.

Fig. 16 Approach organisations will take in response to the 2012 introduction of personal accounts



Base: 329 respondents

Conclusion

The survey shows that while HR Managers view pensions as a positive part of their company's remuneration package, they have several important concerns about pensions which are relevant both now and post-2012 when the reforms come into effect.

The vast majority of respondents saw pensions as a way of positioning their company as a responsible employer. HR Managers on the whole also felt that it was their duty to help staff to plan for their retirement and were concerned that employees might retire on inadequate pensions. Respondents also felt that they would ideally offer far higher contributions to employee pensions than they do now.

A major concern was the lack of understanding of pensions and retirement issues that HR Managers feel their employees have. They were also concerned about the cost of pensions – over three quarters felt that the cost of providing a pension both now and in the future was of some or great concern.

Significant proportions of HR Managers asked about future reforms did not yet know how their company would react. Of those that did, almost half planned to maintain their company's current pension arrangements for both new and existing members rather than switch to Personal Accounts when they are introduced in 2012.

Although HR Managers showed concerns about costs and employee understanding of pensions, the results show that they also value pensions as a recruitment tool and a way of discharging responsibility to their staff after they retire.

NAPF

Securing the future of pensions

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