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Workplace Pensions Arena Summary of transcript

Workplace pensions arena

New directions in workplace
pensions, will you be ready?



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“Introduction of auto enrolment and NEST - it's going to be the most dramatic shakeup in the pension system that I've probably ever seen in 20-25 years”

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New directions in workplace pensions, will you be ready?



Introduction

On 18th March 2010, as part of a working collaboration between the University of East Anglia (UEA) and Lucas Fettes & Partners to research the provision of workplace benefits, a workplace pension's debate was held at the UEA's newly established London base.

Speakers represented a cross section of stakeholders including employers, employees, the TUC and the DWP. The event was introduced by Dr. Susan Sayce from The Norwich Business School at the UEA and continued with a key note address from Ros

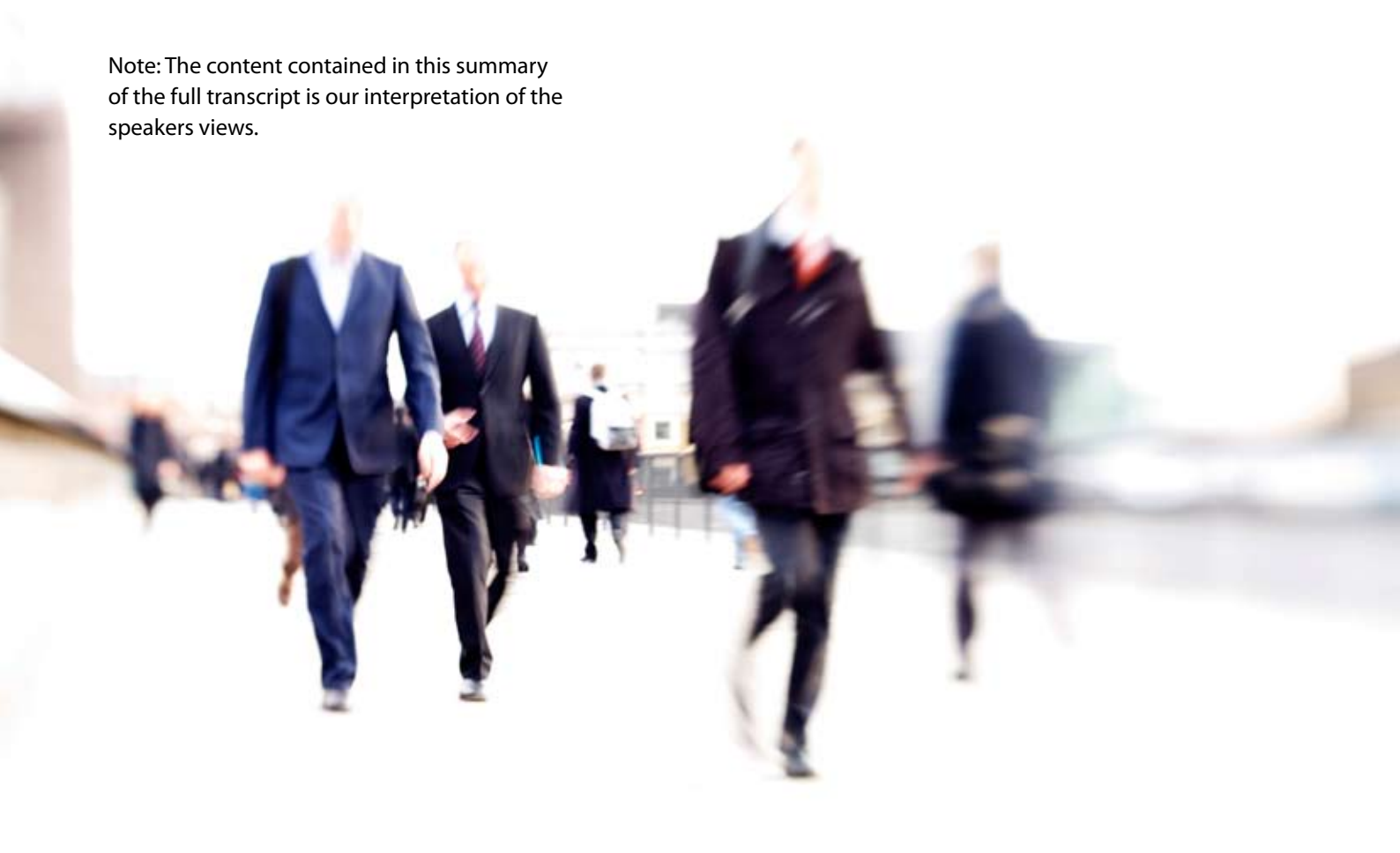
Altman, a prominent and influential figure in the pensions industry and included an insight into the international perspective from Dr. Larry W Beeferman of Harvard Law School.

This summary of the day provides a valuable insight into the views of the various speakers and the main points covered.

A full transcript will be made available and this can be found at:

www.lucasfettes.co.uk/employeebenefits

Note: The content contained in this summary of the full transcript is our interpretation of the speakers views.



Dr Ros Altmann - Investment expert, investment banker, economist and an adviser to the pensions industry advising on policy and strategy.

“We need to ‘rethink retirement’, rethink the age when social welfare is required, work longer and eliminate means testing so everyone has more incentive to save.”

Ros Altman, pension consultant and former government advisor believes we are facing a pension crisis as many people will need extra income in retirement.

A pension is a combination of social welfare and private long term savings. Employers have stepped into the middle and have offered to cover both aspects to some degree. However we are now at the stage where employers are pulling out of or cutting back the benefits of final salary schemes and the responsibility has fallen back on the individual.

The introduction of NEST in 2012 will bring the employer more directly into the frame as they will be forced to engage more with employees.

Although a scheme for all employees is good in theory, policymakers have ignored the practicalities of automatic enrolment, provision of advice and persistency of membership. Big questions such as how many people will actually join or even stay in the scheme have been ignored by policy.

Pensions have not received good press of late and this is likely to lead younger workers to think that pensions are perhaps not for them.

In the NEST scheme employers will only have to pay 3% of band earnings while at present employers who offer occupational scheme contribute around 7%. The problem here is that the minimum tends to become perceived as the maximum. Therefore many employers

have the potential to actually reduce their contributions under NEST.

In terms of adequacy there is the issue that for those who do enrol, thousands will get nothing for their contributions to NEST as the current means test will effectively take it. This undermines the private/state pension split.

All employers from large to very small and even those who are self-employed and employ a nanny will need to abide by the new regulations.

Enrolment does not include any provision for individual financial advice, only generic. This is likely to lead to lower take up rates for NEST. The Government will need to do more to promote NEST by providing education regarding what people can expect to get out when they retire.

A DWP survey in 2009 suggested 98% of those paying into NEST would at least get their money back but this does not incorporate any annuity risk.

The ultimate risk with NEST is the prospect of the government being sued should NEST turn out to be a mass mis-selling scheme.

Do the politicians really have a grasp of the complexities of pensions? The many changes in ministers have made it hard to get

“The government will need to abandon the mass means test if pension reforms are to work.”

Dr Ros Altmann (continued)

consistency and clear understanding. It's not a future crisis waiting to happen – it exists now and the politician should be directly tackling the problems rather than spinning a way out of it.

Employers will face the challenge of funding pensions for their employees and the cost and

complexity of this has been underestimated. Employers will need to ask if the scheme is real value for money.

Employees will need financial education and advice in the workplace to ensure that NEST is well worth funding.



David Haigh - Responsible for Pensions Reform, DWP

“The challenges are that people are living longer and there will be 50% more pensioners by 2050. People also vastly underestimate the amount of money they will require for their expected retirement.”

The DWP's David Haigh outlined that the 2012 new pension regulations include auto-enrolment of employees, which places the responsibility on every employer, to contribute to an employee pension unless the employee chooses to opt out.

There are over one million employers and the DWP estimate that over ten million individuals will be automatically enrolled. This will lead to somewhere in the region of £9million more pension savings by 2020.

In terms of delivery, there are three key political bodies within the programme of reform. These are the DWP who are responsible for legislation, regulation and coordinating the communications activity of the programme. TPR (The Pensions Regulator) are responsible for delivering the compliance regime and PADA (Personal Accounts Delivery Authority) are responsible for the design and delivery of the NEST scheme.

David spoke about how the regulations will be stringently enforced by the Pension Regulator. This is to ensure that employers are making a minimum contribution to their employee pension contribution, presently set at 3% on the band of earning between £5,000 and £33,000.

David ended his presentation emphasising that communication is crucial to the support the implementation and success of the reforms. We need to make sure that the industry and providers of existing pension schemes know how they can comply. Intermediaries need to know enough information about the reforms so they can advise the people they deal with in an appropriate way.

“We need to ensure that individuals know what the reform means for them and we need to make sure employers know what they have to do, how to do it and when to do it.”

“We have rigorous enforcement regimes for legislation, effectively someone ticking off every employer who's actually done what they need to do. They will be registering each employer to monitor what they do. They have quite weighty enforcement powers behind them if they need to use them.”



Nigel Stanley - Head of Campaigns and Communications for the TUC

“People talk about employers retreating from defined benefit schemes (final salary) but the biggest trend is the fact that the biggest group of the workforce are simply not saving in any employer-backed pensions.”

Nigel Stanley is the Head of Campaigns and Communications for the TUC. Although he sees NEST as a step in the right direction he conceded it was by no means a perfect scheme.

Nigel believes the idea of every employer contributing is a good thing but NEST is not ambitious enough with the staging tiers and phasing of contributions being too slow and employees being able to opt out. The scheme is not flexible enough and could be improved upon by allowing people to transfer in or out

and the removal of a contribution cap. NEST will raise awareness of pensions by 2012 but there is much uncertainty that people will, even with education and advice, buy into the concept of savings for retirement with money that could otherwise be spent today.

Along with improvements to NEST, Nigel would like to see more rights for flexible working though not necessarily re-labelling normal retirement age to say 75. It needs to be much more flexible for different people.





John Chilman - Group Reward & Pensions Director, FirstGroup PLC

“We’re the only company in my sector that offers an open DB plan, and it makes no difference to how we can recruit. Does that mean it’s not important to our staff? No it doesn’t.”

John Chilman, Group Reward & Pensions Director for FirstGroup PLC, responsible for 138,000 blue-collar workers outlined employee engagement with pension issues.

His company operates in an industry with high labour turnover and they do not offer their pension scheme to all new entrants. So for them the problem is how will they respond to automatic enrolment when sometimes employees only last a couple of weeks. As yet there is no answer.

John explained that when he is designing pension plans he is very much in the school that one size does not fit all. There is no right solution for everybody.

In the US, 85% of his employees are part time and the take up rate of their pension scheme is around 10% but with full time employees it’s more like 60%. On an auto-enrol scheme the take up increases to 66%. Although there is a significant increase with auto enrolment compared to the 401k scheme John questioned whether part time workers join actively or out of apathy.

Technological solutions could be a solution by use of social networking, website, DVDs, videos, using modellers, html emails etc because these were the things that people could pick up when they wanted to. In the year that they have run their website, a 50% take up of membership has been achieved

which is incredibly high. By comparison, the Railways Pension Scheme has a 12% take up.

He believes pensions are an important part of the employee remuneration package and that ultimately we’ll get to the stage where we just say ‘Right. This is your basic pay. There’s 15% on top; you can spend it as you like. If there’s 15% you want to go into a pension, fine. If you want that 15% to go into saving for your mortgage,’ we use Credit Union and other

things to help that, ‘Or to go into share plans,’ It will become the employees’ choice. The difficulty is actually how we help them to get there. How we educate, how we give them the tools to make

those decisions as opposed to giving them a silo choice every three or six months about what’s right now.

Designing the pension the right way so it does what you want as a business is important.

“Pensions are the most expensive benefit by an absolute mile that companies provide but we don’t really sell them. We don’t really explain the value well enough and show the value well enough to make that happen.”

“You can have a brilliant pensions’ package, you can have a brilliant pension scheme but if you don’t sell it, you don’t have the network of champions, unions, local pension’s people to help, then it doesn’t work. The best way of communicating is face to face but it’s incredibly expensive.”



Mike Sullivan - President, Pension Management Institute

“Employees just find pensions too complicated. It’s in a ‘too hard to deal with’ box. They just can’t cope with putting themselves into a position they’re going to be in, in 20, 30 years’ time and see the path to get there.”

Mike Sullivan, President of the Pensions Management Institute discussed the past, present and future outlook of pensions.

Pensions have got themselves a bad name. There have been a lot of scandals such as Maxwell, Equitable Life’s near collapse and personal pension mis-selling amongst other things. It has created a lot of bad press. You never read in the paper ‘50,000 pensioners retired this year on a good occupational pension.’ It’s just not newsworthy. So the general public only see all the bad bits.

Many employers have switched off from pensions. They’ve become too complicated; all of the revenue rules and the way it has to be shown on the balance sheet etc.

Mike believes one of the worst things that ever happened to pensions in the UK was when personal pensions were introduced in 1988. Not that they themselves were wrong but the legislation that came with them which made it illegal to make it a condition of employment to be in a pension scheme. Previously we had a generation of people that joined employers and they were just automatically put into the pension scheme. There were no questions about it. And they are the people who are now living the life of Riley in retirement.

We are now in a place where DB schemes are very rare outside the public sector and DC scheme have much lower contribution rates and lower take up. These days the offering of a pension is of little interest to the vast majority of people. There are 13 million people in

employment with no adequate pension provision being made for themselves over and above the state system, which itself is under huge strain.

So we have NEST – It’s a start. Too little too late, maybe, but it’s a start and it remains to be seen if people, once they have enrolled will actually stay in or whether they will come out – what about those who shouldn’t actually be in the scheme because of the means-tested trap?

The other issue is that in businesses like his own where there are less than 25% of the workforce choosing to join pension schemes, will the employer say ‘I can’t afford to now provide that level of pension for everybody. I’m going to downscale. So actually I’m only going to spend the same amount but going forwards it’s going to have to spread over a lot more people.’

People who are relying on NEST, if they are above national average earnings are going to find it not by any means sufficient - the danger is that the publicity around it will not necessarily make that clear. People will be led into thinking that they are now part of a pension arrangement and that they will be all right.

There is a need first of all to improve the level of awareness and then education and then from those two you get to engagement and

“Most employers, and I know there are a few around who are still providing DB, would walk away from it today if they possibly could.”



Mike Sullivan (continued)

“The P word - Pension. We’ve got to find a new word. We’ve got to find a way of talking about financial security in retirement that is attractive to people.”

enablement of employees to make sensible financial decisions about their future. I think we underestimate how ill-equipped a lot of employees are to actually make sensible financial decisions.

The other thing to take into account when we are designing pension (for want of a better word) arrangements is that in the future we will see less and less of the cliff edge retirement. It will be much more around a gradual process of moving from full-time work into full-time leisure. And as people are

maintaining their fitness longer a lot more of them will want to work. Some will need to work from the financial point but a lot more will want to work for the social interaction that comes with work.

So all of this needs to be built into reenergising pensions and Mike's biggest fear is that at the moment we have actually got a lost generation out there who are going to have a very, very meagre life in retirement and that will start in about 20 years' time.





**Dr. Larry W Beeferman - Director, Pensions and Capital Stewardship
Project, Labour and Worklife Program, Harvard Law School**

“Ultimately the pre-funding of the scheme is going to accumulate vast sums of money which are the basis for the claims that people are going to make against future wealth creation. What are the implications of those investments?”

Professor Larry Beeferman, Director, Pensions and Capital Stewardship Program at Harvard Law School discussed corporate governance and pension provision.

Larry agreed that we need to think hard about the contributions and benefit side of NEST but we seriously need to attend to the investment aspect.

There are three Investment-Related requirements which should be considered, these being the value related, financial outcome and impact of investments on the larger community.

There is also an argument that imposing investment related requirements may be detrimental to financial returns and therefore ultimately for the benefit of those in the scheme.

There can be substantive requirements for just the default investment, a number of or an entire menu of investments. There are also reporting requirements where individuals are told “this is what we do” or “this is what we don’t do” at inception and/or on a regular basis. You can also have other requirements where investor views can be solicited by vote or advisory panel.

A further government role could be to provide support providing consumer information about how schemes work.

As UK occupational schemes have to report the extent to which social, environmental or ethical considerations are taken into account in their investments, there is already a precedent.

Australia has a government mandated enrolment of the vast majority of its workers. There’s no opt out. Employers have to pay 9% which is significant supplement to their basic pension. Here, employers get to choose the investment managers and the primary role of government is the oversight of those investment managers in a broad-based regulatory sense.

New Zealand has a government mandated auto-enrolment scheme. Whenever you start work in a new job or you’re not already a Kiwi Saver, you are enrolled, unless you opt out. Here there is a minimum 2% employee/er contribution. Investment manager choice is similar to that of Australia.

Sweden has an 18.5% contribution. 2.5% paid by the employee goes into individual accounts with 16% supplementing primary public scheme (split equally between employer/ee). The government chooses the default investment manager but hundreds of other investment managers are allowed on the menu.

“Certainly there’s concern about where and how the returns needed are going to be generated.”



Dr. Debbie Harrison - Fellow of the Pension Institute, Cass Business School,
Consultant for DWP, OECD and Trustee

“Introduction of auto enrolment and NEST - it’s going to be the most dramatic shakeup in the pension system that I’ve probably ever seen in 20-25 years”

Debbie Harrison – fellow of the Pension Institute at City University feels this is the time when employers really need to step back and think about what they’re doing in the pension space. HR and Finance have really got to talk and decide a plan. Should they level down and spread the pensions spend across all employees or offset the costs against wage rises?

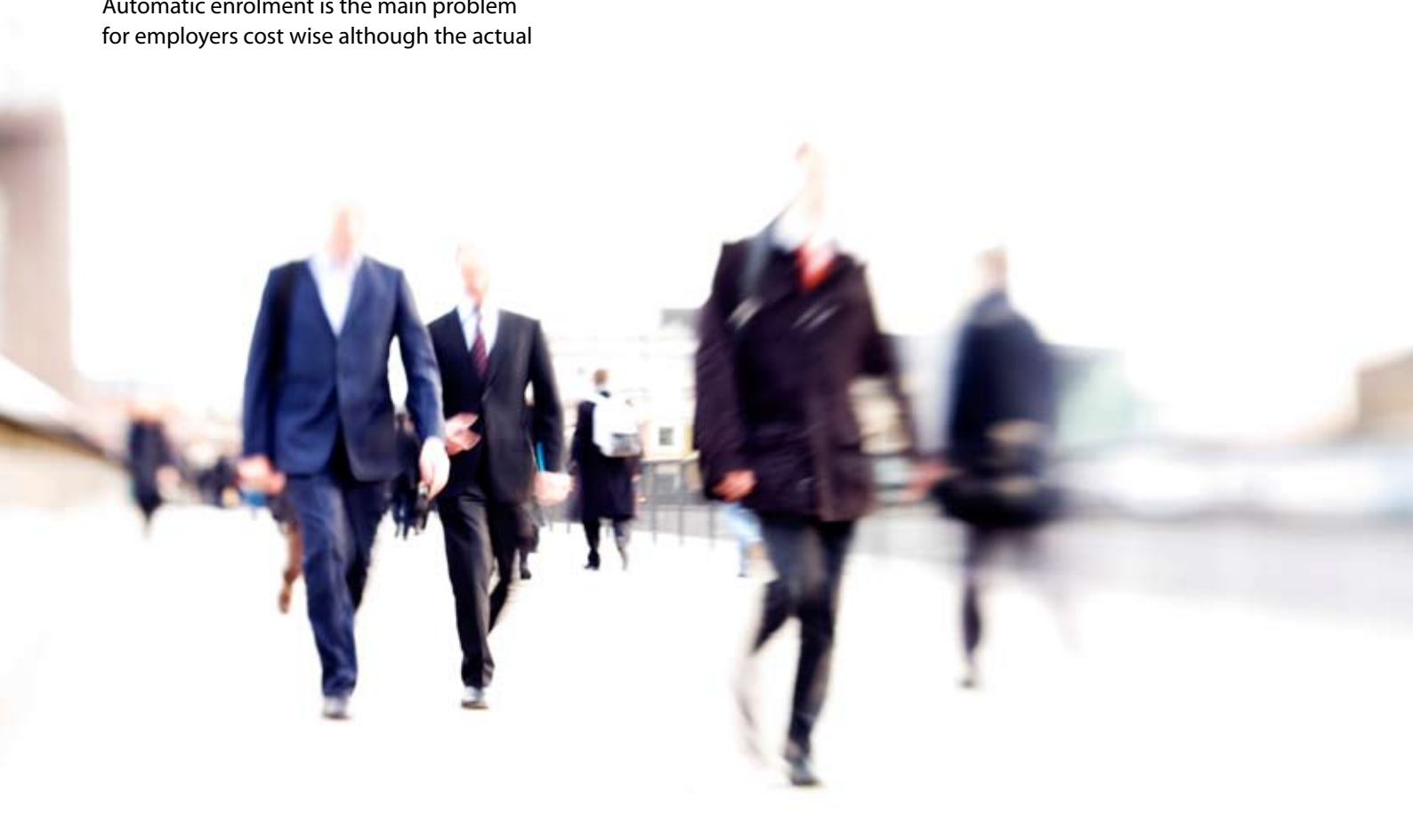
What does auto-enrolment and NEST look like? We are talking about 7 million employees ending up in this. Auto-enrolment is the big thing – NEST is almost a side issue because it simply offers employers a choice. Auto-enrolment should be the focus.

Automatic enrolment is the main problem for employers cost wise although the actual

damage will vary in terms of the total labour cost, take up rate and staff turnover.

The government describes auto-enrolment as soft compulsion where employees who are enrolled, can opt out. However if you keep on enrolling employees, then sheer apathy and boredom is going to win the day and they’re just going to give up and stay in. Employers face hard compulsion in that there is no choice but to offer a scheme (or an equivalent).

“I strongly suspect that soft compulsion will become a part of compulsory compulsion in a very short space of time and maybe at the five-year review.”





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Beverley Lee - Senior Employee Benefits Consultant

“Communication is really vital. The question’s going to be who gives it? Who can give it? And what’s it going to cost?”

Listening to all the speakers it was very obvious that we do actually have a problem, both now and in the future.

Two workers to every one pensioner by 2050. The latest mortality figures suggest that I should be still drawing breath in 2050 and I hope that the two people who are still working will actually be able to afford to pay my pension. To me it highlights the seriousness of the problem and that something does actually have to be done about it.

It’s quite obvious that the solution involves some compulsion. I think everyone in this room would agree that there should be some form of compulsion. There needs to be a wide amount of flexibility as well. Larry said that other countries already have compulsion in place and most have quite high levels of contribution being paid in. So will the NEST contribution level announced be just the starting point, and we will move to mirror these other countries with higher contribution levels? I would suspect that would probably be the case at some point in the future.

The DWP are proposing to start talking to employers in 2011. Speaking to some of you today you feel that’s too late for some companies. They need to be thinking about it now. If you think about it, a lot of employers put together business plans for sometimes up to two, three, or more years into the future. Well, telling someone about something they need to budget for in 2012, the timescale is

too short. People need to be thinking about it quite seriously now and being given advice. But the issue is the cost too. Who’s going to foot the cost of advice? Whether you’re an employer, you’re a pension provider or an advisor, it’s up to us. We’re all in this together and we all need to work very closely to make sure that whatever an employer’s put in place is the right thing for their employees going forward.

Pensions do have a huge image problem. It hasn’t really recovered from the transfer miss selling issues. Stakeholder, people never really got their heads round. They are now being told that this government initiative failed, albeit only because there were no mandatory contribution, and now it is going to be replaced with something else, public confidence in pensions is quite shot to pieces and there’s going to be a huge amount of work to try and restore that as well. Why will NEST be any different? People need to be convinced as to what will happen and what it will mean to them.

It’s interesting that Nigel said that NEST provides huge challenges. Choice is the big challenge; we’ve already heard today what sort of investment funds are going to be available? Will they suit everybody?

We already have the issue with pension simplification with regards to allowing people to continue an income draw down post 75. Will the flexibility of taking your retirement



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Beverley Lee - (Continued)

income be an issue. With ASP we suddenly found religious elements coming in and that prompted changes. Will this happen again?

So how much are we going to put in place today that's going to be backtracked upon tomorrow as always seems to be the case?

They are talking about have a five-year review but is five years going to be too late? How many issues are we going to have to work through before the first year review comes up?

NEST is really just like an iceberg. You're going to see just the top part, and all we know at the moment is the bit that is visible. What you're not going to see is what's hidden underneath and for employers that's potentially going to be a huge cost. That's the administration they're going to have to do, the auto enrolment, putting people in, taking people out, putting them back in, collecting and refunding contributions, re-jigging anything they've already got. Ultimately these costs may, as people believe, lead to possibly levelling down, although the TUC said for some employers there's going to be

levelling up. Whether they're levelling up or down, there's still a huge amount to consider, do & budget for, for a great number of companies and leaving it until 2011 to starting communicating to employers is far too late. It needs to start now.

What's apparent is that we do need some radical thinking. Ros said NEST would have disaster written all over it. Hopefully it won't. What we do want it to be is a well-meaning policy which won't leave employees worse off. Something has got to be done.

So as I said, whether you're an employer, insurance company or advisor, like us, we need to work together on this. It's not going to go away unless something drastic happens in the election. All of the governments have actually said they're committed to some form of compulsion, whether it's NEST or something else. It's already the future. We've just got to work towards it.

Lucas Fettes & Partners

Lucas Fettes is an independent Group of Companies founded in 1980 by Robin Lucas and David Fettes.

The original ethos of the Founding Directors remains a constant today throughout the Company, with an emphasis on a personal service delivery. The Company has developed through its relationships with other professional practices, concentrating on the provision of solutions to the needs of both Personal and Corporate clients.

We are a leading independent supplier of financial services and insurance solutions and take the time to understand the specific needs of both businesses and individuals before delivering bespoke advice and solutions. We aim to develop a long term relationship with our clients based on confidence and trust and are able to offer a service to clients throughout the UK through our network of offices.

The University of East Anglia - Norwich Business School

Norwich Business School is a rapidly growing and successful school located at the University of East Anglia (UEA). The UEA is an internationally renowned university based in a campus that provides top quality academic, social and cultural facilities to over 13,000 students.

UEA is ranked amongst the top three for student satisfaction according to the first National Student Survey and in the top 20 in the UK by the Sunday Times. It also came top of the most recent research effectiveness league table published by Research Fortnight.

How to contact us

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