

THE BIG QUESTION

Should pensions auto-enrolment go ahead?

We ask the experts for their answers... have your say online at: <http://forum.employeebenefits.co.uk/>



Are you an employer that pays minimum wages to your staff and gives no benefits? If so, turn the page now. Assuming that is not you, then why don't you automatically enrol all staff into your pension scheme?

It is apathy that prevents people from joining pension schemes. And for all of us, a reasonable retirement depends on how much we put in and how soon we start saving.

So why do employers balk at auto-enrolment? Finance talks about cost, but having decided to offer a plan to all staff, why say that to save cost, you will rely on people not taking up the offer? If you cannot provide for all staff, then offer a lower contribution rate or a longer service level entry point.

Pensions are not sexy until you need one; then it is too late. Our responsibility to young employees is to educate and communicate the importance of saving for retirement. And their involvement, engagement and interest are vital.

Trust-based schemes have had their day. Staff do not trust them and employers find them bureaucratic and costly. In fact, the fatal flaw is the false comfort they give staff who think other people are taking care of their retirement.

It is time we focused on people and put real resources into communication and education.

A subject as dry as pensions requires face time, not Facebook. Email and the web have been oversold; personal one-to-one and one-to-many needs a renaissance. Auto-enrolment is part of that new covenant. We will play our part, but staff have responsibilities too. We can engage everyone; it just takes determination. It only begins with auto-enrolment. It continues with a lifelong commitment to communication.

Vance Kearney is vice-president of HR, EMEA for the Oracle Corporation. He will be speaking at Employee Benefits Live on 28 September.



In the long term, auto-enrolment does make sense. In the short term, there is likely to be a little pain in completing the journey, and that pain will be shared.

For great swathes of the UK working population, being asked

to pay a pension contribution for the first time will feel like an extra tax. This feeling will be magnified for those on low incomes, where a small amount can be the difference between financial survival and giving up essentials.

But the area that is likely to come under the closest scrutiny is that affecting people closer to retirement and those unlikely to have complete contribution records. If it is found that these individuals lose out on means-tested state benefits, there will be headlines reflecting the plight of the few, irrespective of how many might ultimately gain from the initiative.

Employers will not be exempt from the pain, and the requirement to make employer contributions might be a shock to those that have not traditionally done so, particularly if the pension is not valued by a disengaged workforce. Also, the cost of implementing the employer duty should not be underestimated, and is likely to outweigh the cost of the early years' contributions.

So where is the balance? It should come as a result of individuals being able to enjoy higher standards of living in retirement – above those that can be provided through means-tested state support – without imposing unreasonable burdens on taxpayers in the future.

This could be a pain worth suffering.

Steve Charlton is a principal and senior DC consultant at Mercer



As a big idea, auto-enrolment, otherwise known as 'soft compulsion', works in that it will bring a huge swathe of workers out of the pension wilderness and into a regular pension-saving environment.

It will achieve what education and exhortation have failed to achieve. Just as apathy has prevented many from making pension provision, so many will not be bothered to opt out.

But for many, auto-enrolment may not make sense. Means-tested pensions and a higher tax rate in retirement while contributing could mean pensions are actually a poor deal. For many employers, auto-enrolment equates to a 3% tax on employment with no perceptible benefit.

Some say that, with the likely disappearance of the default retirement age, the extra pension produced by auto-enrolled contributions could ease the way for employees to leave gracefully rather than painfully hanging on to their employment. True, but rather long-term. Employers will also get no competitive advantage from obeying the law.

It is time to bite the bullet and do something. We've been having this debate for 20 years, during which time many could have built up something extra for their old age.

The proposed system is not perfect. There will be winners and losers, but we all know that compulsion is the only sure way. I expect this to be a start, not the final word. I do not believe levelling down will be significant and, once we have got used to 8% contributions, perhaps the next step will be easier. Perhaps opt-out could stay available to employees, but true compulsion apply to the employer contribution?

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