

Pension reform 2012

Are you ready?

Seminar summary

The proposed introduction of the Government's pension reform and the launch of the Personal Accounts scheme in 2012 may seem a long way off, but it actually falls within most organisations' medium-term business planning cycle.

With this in mind, Watson Wyatt held two seminars on the proposed pension reform on 10 February 2009 and 12 March 2009 to outline its implications and discuss how employers might respond. These were the first in a number of events which will be held during 2009 and were attended by a number of senior representatives of organisations which currently operate some form of defined contribution (DC) pension arrangement.

This factsheet summarises some of the issues discussed along with the survey voting results gathered during the seminars and will be updated with the results from future seminars later in the year.

The key points highlighted during the seminar were as follows:

- **Auto-enrolment** - The main implications of the new legislation is the requirement for employers to auto-enrol employees into a pension scheme and pay a minimum contribution into that pension scheme. Employers will have to enrol staff into Personal Accounts if they do not have a suitable alternative. For employers with a low take-up of their existing scheme, this might result in a considerable increase in their pensions spend. Therefore, an early issue for most employers will be



to model the effects of auto-enrolment as the potential impact may not be entirely straightforward.

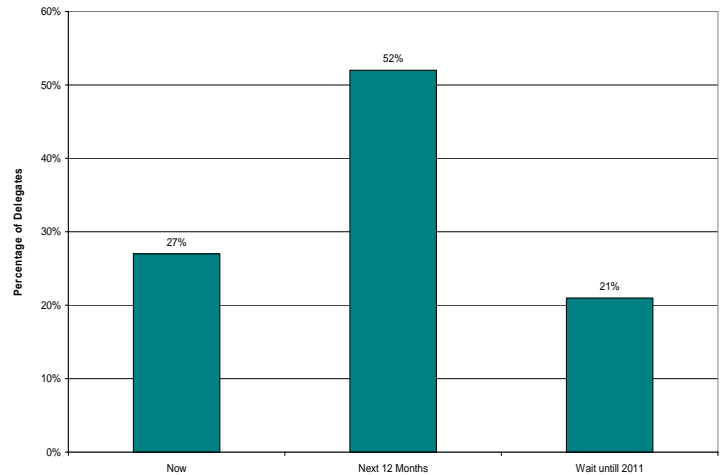
- **Plan design issues** - The seminars highlighted that most schemes will need some degree of redesign in order to meet the minimum requirements set out by the pension reform. In fact, 72 per cent of delegates indicated that they will review their DC plan before 2012 to ensure that it is being run in the most cost effective way.
- Other plan design issues were highlighted including whether the Personal Accounts scheme itself can achieve an employer's objectives, the role of salary sacrifice and the cessation of contracting out under DC plans from 2012.
- **Investment** - To be able to meet the auto-enrolment requirements, DC plans will need to have a default investment programme. This will naturally bring more focus to the investment strategy of DC plans – either by introducing a default investment programme for the first time or through reviewing the suitability of existing default strategies.
- **Engagement** - Communication and engagement are crucial to ensuring a successful DC plan. Following 2012, it will be more important than ever for employers to engage with their employees and to play a role in raising employee awareness of retirement savings issues. In addition, there will be a ban on employers 'inducing' employees to opt-out of pension savings, and so careful communication will be required. Some employees may not benefit at all, or will only partially benefit, by being auto-enrolled into a pension plan, because of the possible adverse effects this may have on means-tested benefits such as pension credits. How best to deal with these potentially affected groups will need to be carefully considered.

Impact of Personal Accounts

Having heard background details, 79 per cent of the delegates indicated that they are either already considering these issues, or are likely to be doing so within the next 12 months (see Figure 1). These pension reforms provide employers with an ideal opportunity to strategically consider the broader picture of workplace retirement savings and ensure that they

have an effective benefits package suitably aligned to their business needs.

Figure 1 | When do you think your organisation intends to consider the impact of the Personal Accounts?



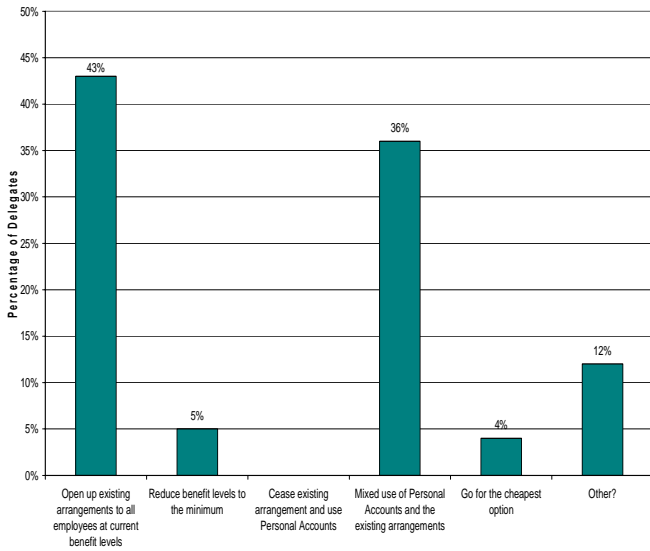
Reacting to the new requirements

Figure 2 highlights some of the options which delegates were asked to consider. 43 per cent thought that their organisation would use its current arrangements and benefit levels to meet the proposed requirements of the reform. No delegates thought that their organisation would cease to offer their existing arrangements and use Personal Accounts.

Organisations with poor take-up rate for their existing plans expressed concerns that offering their current arrangements unchanged would cause them an unacceptable financial strain. Interestingly, in the voting results, only 5 per cent of delegates confirmed that they will consider 'levelling-down' their existing benefits to some extent for auto-enrolling new employees from 2012.

“*...step back and strategically consider the broader picture of workplace retirement savings ...*”

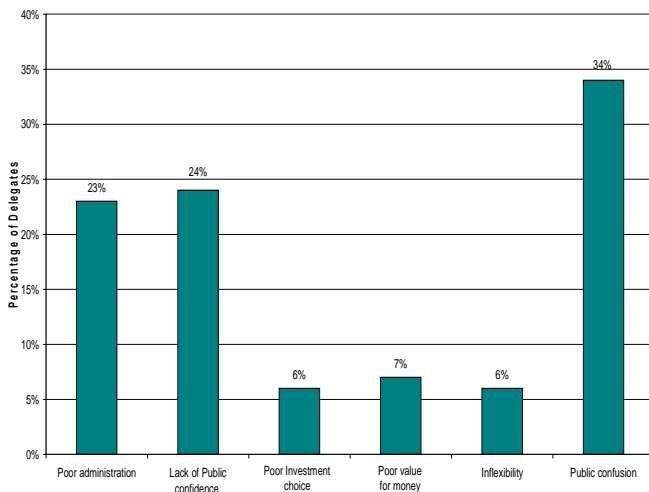
Figure 2 | How will your company react to the new requirements?



Delivery of Personal Accounts

The Personal Accounts scheme will be delivered by the Personal Accounts Delivery Authority (PADA). It is well known that the administration of DC arrangements is complex and needs careful management. The reputational risk for an employer, should their employees' interaction with Personal Accounts be less than satisfactory, must not be underestimated. Therefore, it is perhaps not surprising that the voting at the seminars (see Figure 3) indicated that poor administration, public confusion and lack of public confidence were seen as being the biggest threats to the successful introduction of Personal Accounts in 2012.

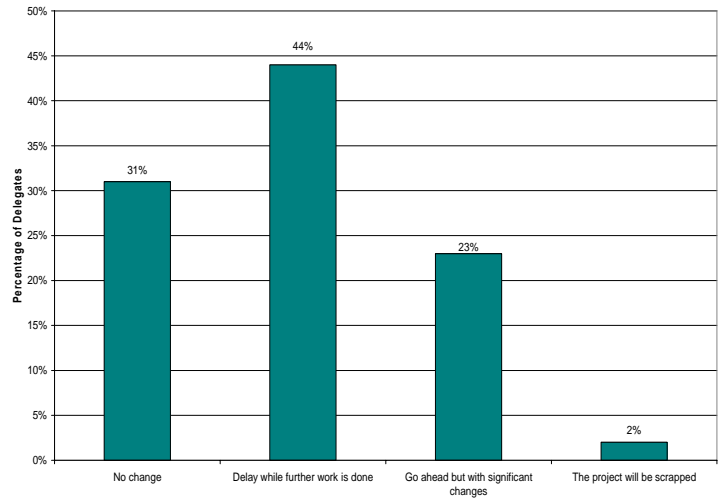
Figure 3 | What do you think the biggest threats to Personal Accounts will be?



Summary

The pension reform requirements are a significant development which have broadly cross political party support. Clearly there is still a lot of detail still to be worked through which means further delays may occur (particularly if there is a change of government - see Figure 4). However, there is already sufficient clarity of the principles and direction for all employers to be considering and making plans now – whether this results in a fundamental review of a company's retirement savings strategy or simply a tactical response to comply with the new requirements. Either way, there is much work to be done and potentially not much time to do it.

Figure 4 | How might a change in government influence implementation?



“...there is already sufficient clarity of the principles and direction for all employers to be considering and making plans now...”

Watson Wyatt DC Consulting

Watson Wyatt's DC consulting team has unrivalled experience and expertise in helping employers design, establish and operate DC pension arrangements. The team brings together over 70 specialists with skills in design, governance, investment, healthcare and risk benefits as well as administration and communication, to provide effective and comprehensive solutions.

We offer practical, business-focused advice to clients across the whole spectrum of DC pension provision, backed by unparalleled research and resource.

Further information

If you would like to discuss any of the findings within this factsheet, please contact your Watson Wyatt consultant or:

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