

**Summary**

- Aside from holiday and flexible working arrangements, an above statutory contributory pension is still the most important thing employees look for when changing jobs.
- Auto-enrolment may alter the way some employers treat workplace pensions in the longer term.
- The key trend in the provision of financial benefits will be a shift to help improve employees' overall financial wellbeing.

# Pensions still on a pedestal?

**Nowadays employers have a wide variety of employee benefits to offer to staff. With this in mind, David Adams asks whether a workplace pension still has value as a staff recruitment/retention tool**

With a wider range of employee benefits now being made available by employers of all types and sizes; and in the light of the many recent changes to the UK pensions landscape, how important is a workplace pension to employees today?

**Pensions popularity**

"Aside from holiday and flexible working arrangements, an above statutory contributory pension is still the most important thing employees look for when changing jobs," says Hays Recruitment director for the senior finance sector, Karen Young. Research from Hays showed that of 14 different employee benefits, a pension offering above statutory contributions was the third most valued (cited by 45 per cent of respondents, compared to 57 per cent who valued the chance to have over 25 days of annual leave; and 62 per cent who cited flexible working).

It is too early to say how auto-enrolment will alter the view of

pensions among employers or employees. We know opt-out rates may rise as contributions increase, while in the shorter term some smaller employers may (illegally) encourage opting out as they struggle to pay employer contributions while absorbing increases in the minimum wage in what may well continue to be challenging economic conditions. The good news, says Mercer principal Emma Roberts, is that there is little evidence of employers that already offered pensions bringing contributions in general down to the levels mandated under auto-enrolment.

But auto-enrolment may alter the way some employers treat workplace pensions in the longer term, suggests Pensions and Lifetime Savings Association (PLSA) DC policy lead Tim Gosling. He stresses the PLSA's support for master trusts used by many employers to deliver auto-enrolment pensions, but asks to what extent employers will engage with the pension scheme if they are not so directly involved with its operation.

"More people coming into pension

saving is a good thing if it results in a virtuous circle of employers offering more generous contributions to attract talent," says Gosling. "At the moment with auto-enrolment we're seeing very high enrolment rates, which is fantastic, but I think that's largely on the back of inertia. The opt-out rate when we get to 2018/2019 is going to be a much better gauge of what people really value than any of the market research done so far."

**Holistic approach**

But if opt-out rates do increase in future it could be because employees are saving money elsewhere, possibly with the active assistance and encouragement of an employer. "One of the trends that we are seeing and we expect to accelerate over the next few years is the change to a more holistic approach to savings," says JLT Employee Benefits director Mark Pemberthy.

He believes the launch of freedom of choice and related announcements, particularly around the inheritance of pensions savings, are driving this trend, by turning a DC pension into a long-term savings scheme that does not have to provide an income for life and can be passed on to legatees.

In addition, no one knows what impact the Lifetime ISA (LISA) might have on workplace pension saving when it is launched in April 2017. Gosling expects some employers to offer it alongside existing pension scheme membership.

"The LISA will definitely have a part to play in future savings plans for those up to the age of 40," says Willis Towers Watson senior consultant Ann Flynn. "A lot of employers

are acknowledging the fact that people who work for them have other priorities other than thinking about retirement.”

### Financial wellbeing

Pemberthy believes the key trend in the provision of financial benefits will be a shift to help improve employees' overall financial wellbeing. This seems to chime with the findings of research from Willis Towers Watson, which reveals the extent of some employees' financial worries, particularly in younger age groups and negative impacts this was having on performance at work and absence through illness. The company's advice to employers seeking to address this issue is to engage with the workforce to identify different financial needs and concerns within groups; and to review the design of current employee benefit programmes to ensure it meets those needs.

Pemberthy stresses the importance of providing information and support for employees making decisions in relation to pensions and other finance-related employee benefits. One helpful step the government has taken in this respect is to increase the tax exemption for employer-arranged pensions advice from £150 to £500. “We do see a significant appetite for that,” says Pemberthy. “The workplace is still the best environment for individuals to access guidance and advice in a subsidised way.”

### Flexible benefits

It is still generally the case that larger employers are more likely to offer employees access to a broad range of employee benefits, but this is gradually changing, with a growing

number of smaller organisations working with benefit providers to developing flexible benefits packages.

Pemberthy says the flexible benefits market is growing quickly, thanks in large part to online technologies. “Technology makes it possible for employers of all sizes to promote additional benefits through payroll,” he says.

These include life insurance and assurance, critical illness cover, medical insurance, dental cover, eye tests, flu jabs, retail vouchers, dining cards, technology schemes, subsidised gym membership, cycle to work or technology purchase schemes and childcare vouchers. A growing number of employers now allow employees to choose from a ‘menu’ of 15 to 20 benefits or more. Young notes that health and wellbeing benefits of various kinds, including eye tests, but also stress relief therapies, massage clinics and zumba classes seem to be particularly popular with younger workers.

The Hays research shows which benefits seem to be most valued by employees after flexible working, generous holidays and an above statutory level pension. They include health insurance (cited by 34 per cent of respondents), financial support for professional studies (25 per cent), a company car (22), life insurance (20), share incentives (15), subsidised leisure facilities (15); and discounts on company products and services (14).

Loans for purposes including season tickets are increasingly popular says Young. Hays now offers its own employees with over a year's service loans of up to 20 per cent of base salary, often used for purposes such as paying a rental deposit or buying a new car.

It is clear that employees respond well to an employer prepared to invest in their personal and professional development. Employees in the IT, construction, HR, finance, marketing and retail sectors in particular seem to value an employer prepared to invest in their skills and development, according to Young.

### Salary sacrifice

One possible problem on the horizon is the way that HMRC wants to clamp down on the use of salary sacrifice to pay for employee benefits. In his March 2016 Budget George Osborne reiterated his support for pensions, childcare and healthcare benefits paid for via salary sacrifice – but post-Brexit, Osborne will surely not be Chancellor for much longer. At the time of writing it is not at all clear who will replace him, who will be in post as pensions minister, or even which party will be in power by March 2017, so there will continue to be uncertainty over the future of salary sacrifice (among so many other things).

### Endurance

Yet, despite that uncertainty, pensions will surely remain an important part of the benefits package. One key reason, says Roberts, because “a pension is one of those benefits employees need throughout their working life”, while other benefits may be more or less appealing to different demographic groups.

And although one of the great clichés of the pensions industry is the difficulty faced by employers, providers and anyone else in getting younger employees interested in pensions, Roberts suggests this is not a universal truth. “Some younger workers are quite clued up, because they've had recent experience of their parents planning for retirement,” she explains. “They really understand the value of that benefit.”

So, even in these uncertain times, while an ever-greater range of employee benefits will be good news for employees in organisations of all kinds; and despite sometimes mixed messages coming from government and occasional cases of employer neglect, it seems that the workplace pension will remain a key employee benefit for a while yet.

✉ **Written by David Adams, a freelance journalist**