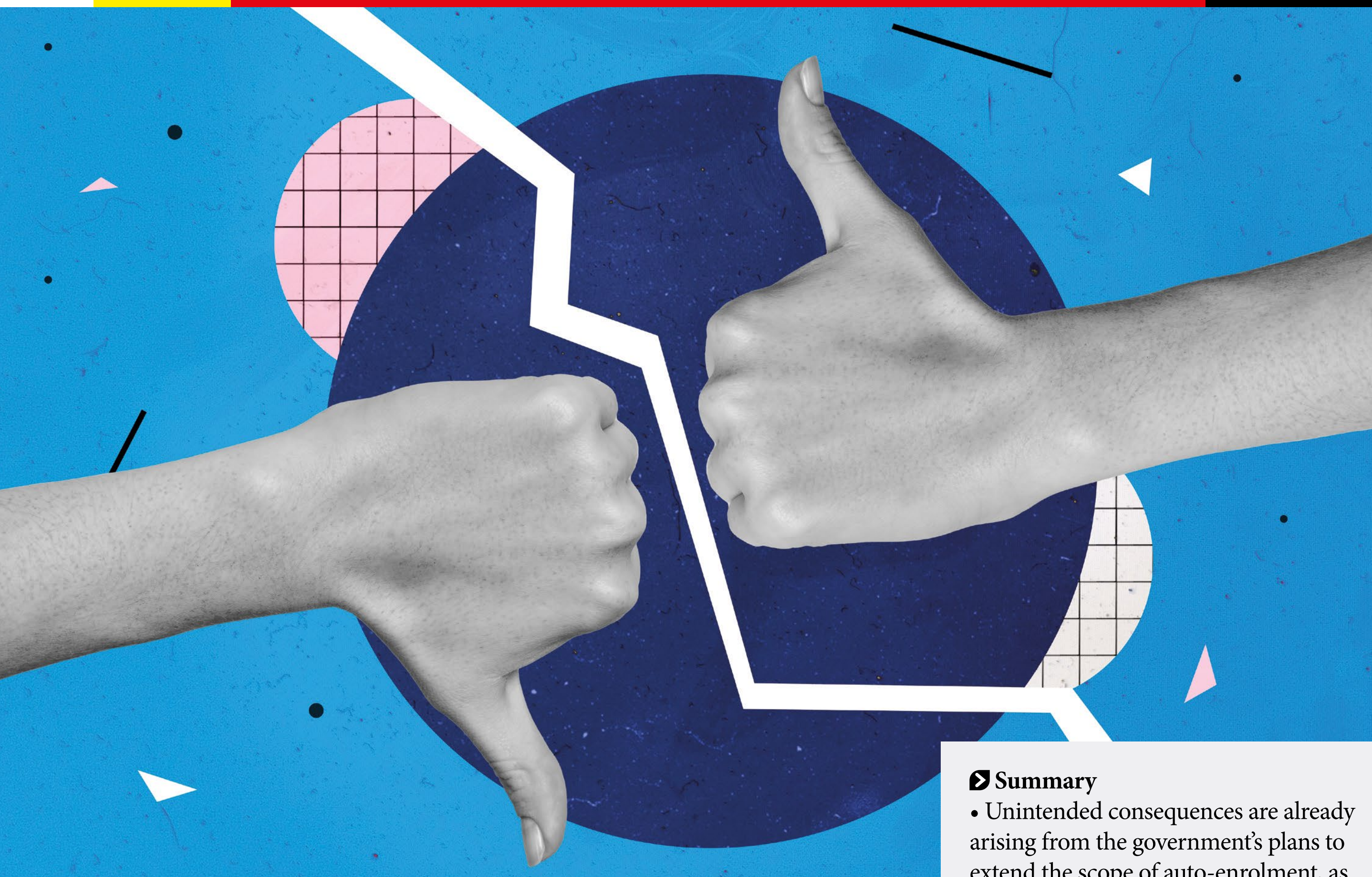


Summary
• Unintended consequences are already arising from the government's plans to extend the scope of auto-enrolment, as employers look to balance the expected increase in costs.
• A strong pension offering can still be a useful recruitment and retention tool, but employers need to be mindful of the reputational risk of backtracking or changing a once-generous pension provision.
• The growing responsibility placed on the saver has seen the role of the employer minimised in pension saving, with plans for a pot-for-life model potentially disincentivising employers even further.

The risk of 'doing good' going 'bad'

Sophie Smith takes a closer look at the recent backlash faced by Morrisons after it announced changes to its pension contribution policy, and whether there is still enough incentive for employers to go above and beyond in their pension offering

Unintended consequences are no new issue in the pensions industry, and whether you want to call it Murphy's law or Sod's law, it seems true that in many situations, that which can go wrong, will go wrong. This is already being seen in the latest changes to auto-enrolment (AE) rules, which are designed to extend pension saving to lower earners and younger workers.

Despite being a change that the industry and politicians have championed for years, unforeseen issues are already arising, as Morrisons recently announced plans to make changes to its pension contributions policy, in light of the growing costs that the new rules are expected to bring.

Whilst the total pension contribution will remain unchanged under the proposals, the division between employers and employees would be reversed. This means that while Morrisons is currently one of the few going above and beyond its statutory duty by it, the employer, paying 5 per cent in contributions, and its employees 3

per cent, the supermarket will soon join the majority of employers in offering the minimum – cutting its own contribution to 3 per cent – while its employees' contributions will increase to the 5 per cent most auto-enrolled employees pay.

So, all this action now from Morrisons, even though the exact implementation for the government's AE changes has yet to even be consulted on, and with no concrete timing on when the changes will be introduced.

Therefore, Morrisons' plans were, perhaps unsuprisingly, met with backlash, as Unite the Union and Usdaw both raised concerns around the proposals, with Unite general secretary, Sharon Graham, branding Morrisons as a "pensions villain" trying to "fleece workers by hiking their pension contributions while slashing its own contributions".

The blame game

Unions were not the only ones worried, as Work and Pensions Committee (WPC) chair, Stephen Timms, also wrote to the supermarket chain to raise concerns and querying the reasoning behind the decision.

Yet, Morrisons argued that the overall amount of money the company is putting into its staff pensions will actually be going up when the broader AE changes come in, with a larger number of its employees expected to be enrolled under the new measures.

Despite this, Hargreaves Lansdown head of retirement analysis, Helen Morrissey, warns that while Morrisons' current offering is above statutory AE minimums, any reduction will be viewed negatively by members, particularly as their own contributions are rising and many will be struggling with tight budgets amid the cost-of-living crisis.

But it is not only savers that are dealing with increased financial strain, as Standard Life managing director for workplace, Gail Izat, points out that both employees and employers are currently facing "a huge number of short-term financial priorities to deal with – never more so than entering the third year of a cost-of-living crisis".

Indeed, Morrisons has repeatedly defended the "difficult but responsible decision" as necessary in order to balance the costs of a sustainable and affordable pension scheme with hourly pay, which staff have told the supermarket they value more than any other benefit.

But industry experts are hopeful that this will not be the start of a broader trend, as Pensions Management Institute (PMI) director of policy and external affairs, Tim Middleton, says that it would be reasonable to expect other employers to be able to absorb these costs, arguing that many employers have from the outset committed to contributing more to staff pensions than the statutory minimum.

And whilst Middleton thinks that the new reforms will undoubtedly see other employers consider ways to mitigate the increased costs arising from September's reforms, he agrees that rowing back on pension contributions at this time bears "significant reputational risk", arguing that no employer would take such a decision lightly.

Prioritising in a cost-of-living crisis

Adding to this, Izat emphasises that while different firms will have different priorities when it comes to the overall reward package offered to their employees, pensions are incredibly tax efficient and have the potential for inflation-beating investment growth.

"A competitive pensions offering is definitely one of the best ways to boost employees' overall financial wellbeing," she says. "Hopefully, the vast majority of employers will recognise the value in going beyond the minimum level set out in legislation and communicate the benefits to newly eligible workers.

"Many of the considerations will be employer specific and reflect the make-up of their workforce."

In particular, Izat suggests that targeted communication can be one alternative approach to reducing contribution rates.

"For example an 18-year-old who becomes eligible for AE may be entering the workforce as a summer job to fund university, while for another this may be the start of a long-term role," she explains. "The two individuals will have different financial considerations and pension communication can cater to this."

Despite some industry sympathy for employers navigating an increased pension cost, there is an overwhelming consensus in the industry that pension savings currently are simply not adequate, with recent research from the Department for Work and Pensions revealing that 38 per cent of working aged people are under-saving for retirement when measured against Target Replacement Rates Before Housing Costs.

Whilst there is little argument in the industry that current pension saving levels are enough, how and when to increase these savings levels strikes up more of a debate, not to mention where this responsibility should lie, as Izat points out that the decline of DB pensions and rise of DC has shifted the onus to save ever more to the individual.

But Morrissey admits that, understandably, for many, long-term saving goes to the bottom of the list, particularly when times get really tough.

This, she argues, is why it is so important to have a minimum standard set by government to ensure everyone has the chance of a comfortable later life, and an industry offering the best products, service, advice and guidance to facilitate this.

"People are in charge of preparing for their own retirement, but this needs to be done with the support of the employer, industry and government," she says. "Saving enough for a good retirement is an enormous undertaking

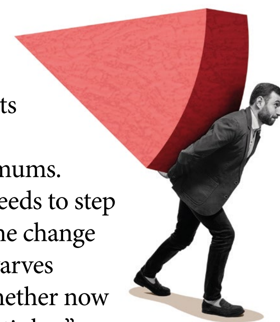
and a good level of employer contribution can act as a real incentive for employees to contribute more to their pension."

She also stresses the need to properly incentivise employers to boost contributions to workplace pensions rather than cut them.

Driving change from the top

Dalriada Trustees director, Adrian Kennet, agrees, arguing that the issue of lack of retirement savings needs to be driven by the government.

"Society is increasingly focused on immediate gratification – employees, often through the inadequacy of financial education, don't appropriately value long-term pension savings," he continues.



"Employers in competitive markets will therefore only comply with minimums. The government needs to step up. The extent of the change that is required dwarves discussion as to whether now is the right time to tinker."

SPP financial services regulation committee chair, Jasmine Smiley, echoes this sentiment, arguing that while the pandemic and cost-of-living crisis has had an impact on most households and businesses, it is important that UK workers and savers are not left behind.

"We would welcome a review of the current AE minimums alongside a broader review of the UK pension system to ensure that any increases, as well as the impact of increasing contributions, can be considered," she adds, clarifying however, that any increase in contributions will need to be balanced with affordability for both employees and employers.

Making these changes holistically, rather than the piecemeal approach currently being adopted, could be one way to ensure more joined-up thinking, allowing employers to navigate these changes in one go, rather than having to review their pension provision every time a new change is announced.

And despite the current financial strain faced by employers, Middleton points out that we are now at a point where employers' long-standing commitments to legacy DB schemes are coming to an end as buyout or run-off become possible.

"For the past two decades, many have argued that employers' commitments to their DB schemes have been at the expense of members of newer DC arrangements, and it is reasonable to argue that requiring higher rates of contribution at this time is both affordable and socially just," he says.

Written by Sophie Smith

An incentive for savers, or a disincentive for employers?

The trend to hand ownership of pensions back to savers is perhaps best reflected in the government's recent call for evidence on a pot-for-life model *[read more about this on page 47]*.

However, the plans have been seen as a distraction from the more pressing issues and reforms that are already in flight, with various concerns raised around the proposals and the potential impact on savers and the pensions industry alike.

In particular, a number of industry organisations have raised concerns as to whether 'good' employers will be willing to continue to offer high quality schemes if there is a risk that past employees may continue to contribute, potentially costing the employer more without improving retention rates.

In addition to this, Middleton warns employers could be left with a statutory duty to set the scheme up, but not be bothered enough to actually promote the scheme, with the only staff making use of the scheme being those that are disengaged or simply have no other options.

"I think it certainly would disincentivise employers to work so hard when finding a good auto-enrolment scheme too, as it means putting a lot of effort into finding a service that only half of your employees are ever going to be interested in," he notes.

However, Middleton is quick to clarify that the switch to a pot for life doesn't look like something that will happen anytime soon.

"It seems like the wrong initiative at the wrong time, and in terms of priorities, there are more important things for the government to address," he says. "There has been an extraordinary amount of interest and discussion since it was formally announced, but don't be surprised if it disappeared just as quickly."

Whether the changes come to fruition or not may not matter though, as Morrisons took the chance to push ahead with its proposed changes to the auto-enrolment contribution levels even before the government has consulted on plans to implement the extension.

Given this, it's important to remember that discussions around policy changes this big can have an impact on employer behaviour, even before a decision is made.