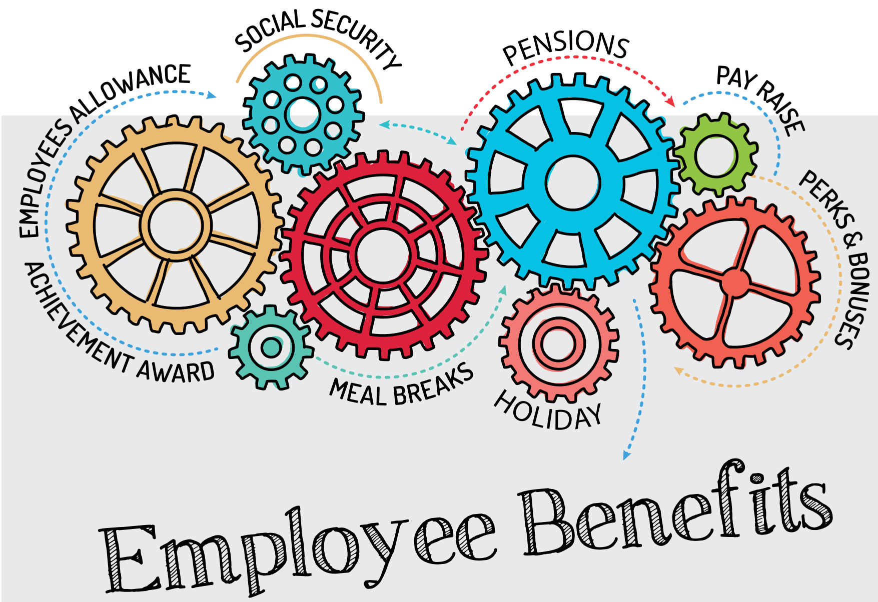

Summary

- Pensions still aren't seen as a valuable benefit to most. The idea of a job for life and a gold-plated final salary pension to go with it is gradually becoming a thing of the past.
- There is now a commonplace 'worry about it later attitude'. Employers and employees are yet to grasp this is an issue. Millennials and Generation Y are likely to opt for cash in hand as opposed to the promise of a future pension.
- Employers are questioning the value of them running a pension scheme, particularly as legislation has added layers of complication, making them more onerous to manage. Government intervention has been called for to make employers offer better value pensions.

Reaping the benefits

In an age where gold-plated DB schemes are becoming a thing of the past, pensions are no longer seen as a shiny workplace benefit. But are employers doing enough to provide a generous pension, compared to other benefits? And what benefits can this have for both the employee and employer? Lauren Weymouth explores

Just a quick google of 'the best employee benefits' and you'll find lists of fantastic company perks, such as free snacks, a games room, a free iPhone and much more. Airbnb, for example, provides its lucky employees with $2,000 to travel anywhere in the world. Not bad, is it?

But none of these lists boasting about the 'fantastic' benefits companies are providing draw any mention to retirement. After scouring through several articles, you'll be lucky to find any mention of companies offering staff a gold-plated DB scheme or a high contribution to their DC scheme.

You might already be thinking "pensions aren't a benefit anymore – auto-enrolment makes them compulsory". And you'd be right. But the chances are, as industry figures, you know better than anybody that a generous pension is hard to come across, yet it's more important than ever.

For many public-sector industries, a decent pension – comparative to the auto-enrolment bare minimum, that is – is almost guaranteed. Firefighters, for example, still enjoy a final-salary scheme and, in return for an 11 per cent annual contribution, firemen and women can enjoy a full pension of two-thirds of their salary from the age of 50. Even those who joined after 2006 (when the scheme closed to new entrants), can enjoy good benefits.

BBC employees are also up there with the lucky ones. As the BBC is widely funded, the corporation rewards its staff with 1/60th of their career-average salary as a pension, in return for a 4 per cent pension contribution.

But for many of those working in the private sector, where auto-enrolment has almost dragged firms into the pensions world kicking and screaming, a 1 per cent contribution from their employers is about as good as it gets. A figure that may only amount to a few thousand pounds a year at retirement depending on annual income.

Living in the present

Yet, despite this, pensions still aren't seen as a valuable benefit to most. There could be several reasons for this, but two appear to be particularly clear. Firstly, as Dole Clayton head of pensions Andrew Campbell says, the idea of a "job for life and a gold-plated final salary pension" to go with it are "gradually becoming a thing of the past". Many people are now starting to save for a pension with the pre-conception that it won't have enough value to retire on it alone anyway.

"Given the perceived poor value offered by DC pension arrangements, pensions as a key part of the employee benefit proposition are far less important than they used to be," Clayton adds.

Secondly, there is a commonplace 'worry about it later' attitude. "There is an adage that you only value something when it's gone. Pensions could be like that if we're not careful," Punter Southall Aspire managing director for DC consulting Alan Morahan says.

Whilst there is absolutely no doubt that an employer who offers a generous pension contribution to its employees is more attractive and beneficial than employers who offer a low rate, many employers and employees are yet to grasp this as an immediate issue.

"There are currently 11 million employees actively saving into a pension in the UK but there is much research to show that engaging all employees with saving enough into a pension is difficult; some companies struggle to get employees saving the minimum to enable the maximum employer contribution so there is still some work to be done to assist all employees in seeing the value of a pension," Close Brothers head of financial education Jeanette Makings explains.

A generational issue

Although there is a lack of engagement from many, Campbell argues it's purely a generational issue. The younger savers are, the less interested they are in the companies offering generous pension schemes.

"Millennials and Generation Y are just as likely to opt for cash in hand or any other number of soft benefits as opposed to the promise of a future pension, however generous," he says. "I know that some employers have even used cash payments to members as part of smoothing a pension scheme closure exercise, with real success and a very low level of resistance from members."

However, auto-enrolment has played its role in highlighting the importance of saving. According to the Department for Work and Pensions, the number of people saving has seen a rapid rise since the start of auto-enrolment, with the number of eligible employees in the 22 to 29 age group saving into a workplace pension increasing from 24 per cent in 2012 to 68 per cent in 2016.

Untangl founder Richard Stewart argues that if employers really asked the question, then employees would value pensions much higher than expected. "Employee benefits are now widely recognised as a necessary weapon in the war for talent, and many businesses will find – if they really question – that staff would opt for pensions over pay rises," he explains.

Research by PwC also highlighted how employees value pensions as a benefit much more than is realised. The PwC survey of 2,400 UK employees found when it comes to employee benefits, the greatest value is placed on tax-efficient savings such as pensions and share plans.

Interestingly, when asked which are their two most highly valued employee benefits, 65 per cent of respondents opted for contributions to their pension pots, while around one half of respondents said they would participate in a company share scheme. Company cars and medical insurance were only chosen by over a quarter of those surveyed.

Employer reluctance

If research claims employees value pensions above other saving benefits, then why aren't generous schemes more common? Morahan argues it is because many employers are questioning the value of them running a pension scheme, "particularly as legislation has added layers of complication, making them ever-more onerous to manage".

"However it doesn't need to be like this," Morahan explains. "Many employers run great schemes, which are appreciated by their employees. These are schemes with decent levels of contribution, which are well governed and, most importantly, have effective communication strategies built around them so that employees are properly engaged."

But many employers still aren't aware of the benefits running a generous pension scheme can have. While it might just seem like another cost, a generous company pension scheme can help to retain staff, which subsequently helps to reduce turnover and recruitment costs.

"Employees have also been found to appreciate the guidance about pensions and retirement planning that can come with the pension scheme itself. These intangible benefits arguably boost employee morale and could help productivity with employees becoming more committed," Open University Business School director Martin Upton explains.

Help from the government

When offered a shiny new phone, car, medical insurance plan or free childcare, we'd be fools not to turn it down. But while these things are attractive to most, research has also clearly shown that if employers sought better pension plans, rather than opting for default schemes, employees would feel much more valued in the long term.

Campbell argues that in order for this to happen, there might need to be some government intervention. "If, at any point, we see government intervention and a requirement on employers and the pension industry to offer better value to members, this will in turn improve what employers have to offer to their staff," he explains.

"Enticement hasn't worked so there's a stick already in place with auto-enrolment contributions being phased upwards between now and 2019. This will lift employer contributions towards 3 per cent," he adds.

Plugging more money into pension schemes may be an underrated benefit, but it can also be a much more efficient way to reward employees than simply paying them more. "Higher pay attracts higher employer national insurance contributions," Upton says.

"So, both employees and employers can be winners by offering a good pension scheme even in an age that is seeing the demise of the old 'gold standard' company final-salary defined benefit schemes," he concludes.

Written by Lauren Weymouth, a freelance journalist