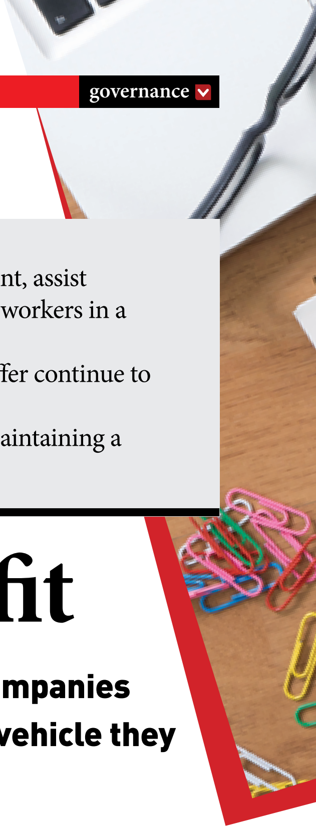


Summary
• Companies' employee benefits help staff prepare for retirement, assist recruitment and retention efforts, and fulfil mandates to enrol workers in a retirement scheme.
• Employers need to ensure that the workplace benefits they offer continue to provide the most benefit they can for all parties.
• For this, a periodical review is an important ingredient for maintaining a successful retirement scheme.

Feeling the benefit

John Devine explains the importance of companies regularly monitoring the retirement saving vehicle they select for their staff

For many employers, a company pension scheme that helps employees save for a comfortable and secure retirement may be their biggest expense after salaries and wages, and managers will want to know that their money is being spent wisely.

To stay on top of what can be a challenging and changing retirement horizon, companies should conduct regular reviews to ensure objectives are still being met, from regulatory requirements to meeting the retirement needs of employees, according to Pension Geeks co-founder, Jonathan Bland.

"I think it's vital that employers review their pension schemes, not only to ensure they satisfy the automatic enrolment rules or to check that it remains compliant following any change in pension scheme law, but to ensure they still meet the retirement needs of their employees. Employers have a duty to ensure they enrol their employees in good quality, durable pension schemes –and to ensure the schemes continue to perform effectively," he says.

Fit for purpose

When reviewing schemes, an employer's corporate objectives should factor into the process, says Aon's head of the benefit design team, David Hughes, who adds those objectives could include: managing risk and cost, staff loyalty and retention, harmonising benefits in 'future-proofed' arrangements, offering employee choice, and educating and supporting members.

Many sponsors, he adds, want to work with experienced partners, "to ensure that benefit offerings are in line with their objectives and reviewed regularly to ensure that they remain fit 'for purpose".

Regular reviews will help an employer stay current on the changing demographics of the workforce, and on new pension innovations, such as digitally-enabled communications, says Aegon's managing director of workplace business, Linda Whorlow.

"It's important that employers are made aware of what is available on the market, so their pension scheme isn't left behind."

And employers, says Now Pensions' director of policy, Adrian Boulding, should have a business perspective when it comes to reviewing their retirement schemes.

"Even a small employer will be paying thousands of pounds of pension contributions across to that supplier every year, so they should keep that relationship under regular review to ensure that the service is fit for purpose and value for money," he states.

Reviewing a pension scheme could be done every three years but might be "brought forward if regular monitoring of ongoing activities reveals any cause for concern", continues Boulding. Large clients will often review their suppliers every three years, and a pension scheme provider will be treated in the same way, says Whorlow.

A growing number of defined benefit schemes in the UK have conducted reviews over the past four years, and the closure of DB schemes has accelerated as a result, says Hughes. He offers several reasons for this trend, including changing workforce demographics leading to a majority of employees being in DC schemes rather than DB ones.

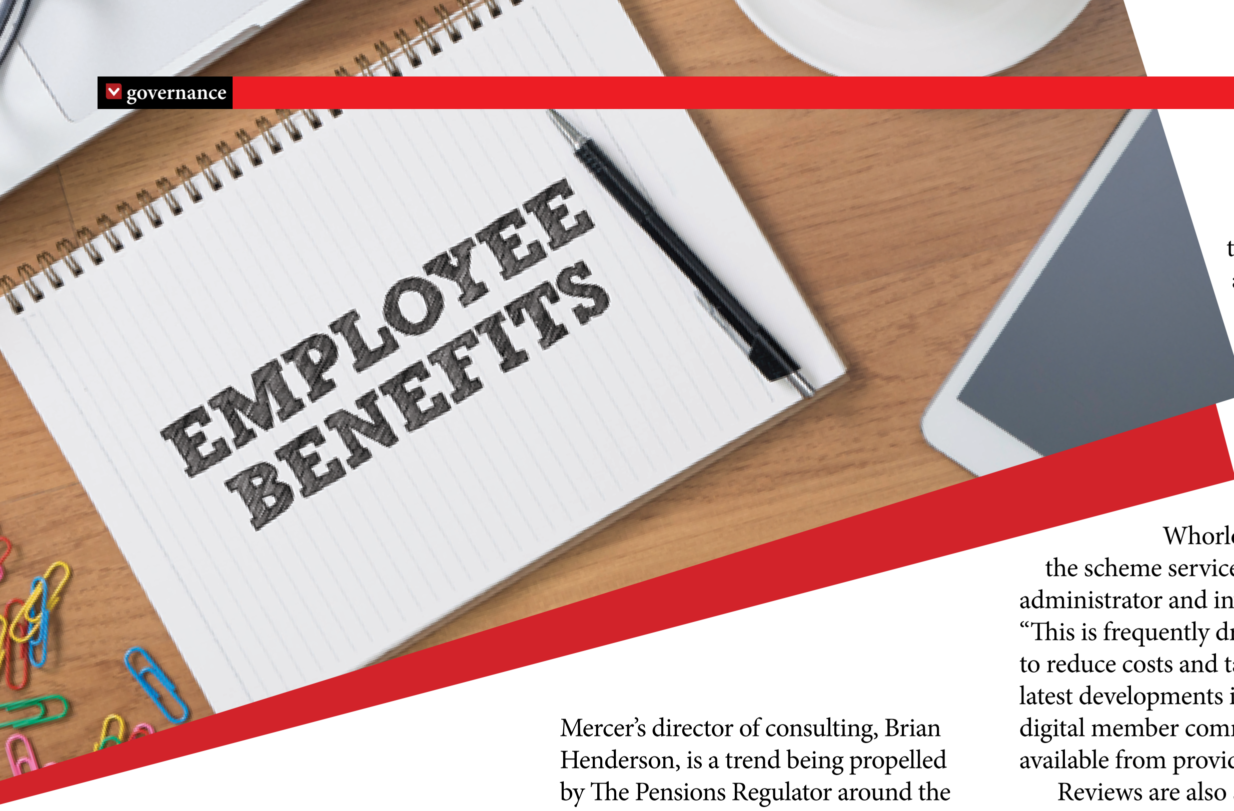
"It then becomes a far more natural step to move towards harmonising future benefits, with the risk of potential business disruption also being lower than it might once have been. The focus then shifts to DC provision as the primary vehicle for many and making sure that this is appropriate and 'fit for purpose' in a changing world," says Hughes.

When conducting reviews, employers need to take into consideration the reasons behind the effort.

"If the pension scheme is primarily there for compliance with auto-enrolment legislation, then the review should check that the administration is smooth and that the member communications are engaging. But if the pension scheme is forming an expensive part of the remuneration package, then a much wider review, considering alternative suppliers and different forms of pension schemes, might be appropriate", explains Boulding.

Stakeholder input needed

Taking into consideration the possible reactions of key stakeholders, either negative or positive, is an important



component of any review, says Hughes, as is "the timing of any review in the context of any other business activity, such as corporate restructuring or wider pay reviews".

"It is also notable that almost half of the reviews in our recent survey have had union involvement. This is likely to be a key driver for the 59 per cent of benefit reviews in the past four years that have involved some sort of concession to members compared to the initial proposal, up from 35 per cent for benefit reviews before 2014 survey," he adds.

Working with an experienced partner, he adds, can help to pave the way for a positive dialogue with unions regarding the issues faced with ongoing DB provision, and how to find an acceptable solution.

Stakeholders involved in reviews could include members of the retirement scheme, union representatives, employer representatives, trustees, and employees.

"The pension scheme is for the employees' benefit. Of course their views should be canvassed in any review exercise. This will also reveal whether the scheme is obtaining the level of employee engagement that the employer is hoping for," says Boulding.

One of the forces driving reviews in the UK at the moment, according to Mercer's director of consulting, Brian Henderson, is a trend being propelled by The Pensions Regulator around the question of consolidation, particularly of smaller schemes into larger master trusts. The regulator, he says, is raising questions about fees, investment potential, governance and other related matters.

"There is a directional travel with that line… and it's to try and get the smaller schemes to consolidate with the big schemes. Those big trusts are measured in the billions of pounds, so if you are sitting on a £30 million DC scheme, it's going to be hard to compete with the bigger trusts. I think the regulator is onto that, and that is prompting reviews," Henderson explains.

Reviews

Reviews may result in a number of changes, including the closure of a DB scheme or a move to a master trust. However, it's important, says Boulding, to see a review in broader terms.

"It would be a good idea for the review to look at what role the pension scheme is playing in terms of meeting the eventual retirement needs of employees, perhaps including an examination of how scheme benefit levels compare to the PLSA's new retirement living standards. A really important change coming out of this could be higher levels of employer contributions or greater promotion of the opportunity for additional voluntary contributions from employees."

A trend that's increasingly being seen from employers and trustees, says Whorlow, is bundling the scheme services of a third-party administrator and investment platform. "This is frequently driven by the desire to reduce costs and take advantage of the latest developments in fully integrated digital member communications available from providers."

Reviews are also seeing the emergence of new pension models.

"Against a backdrop of DB benefits considered unaffordable for many but workers' unions view that DC savings would not provide a sustainable income in retirement, we are also starting to see the early emergence of collective defined contribution schemes. Under this solution the investment and longevity risks could be shared between members, providing a sustainable income in retirement, within a defined contribution environment," explains Hughes.

In addition to questions of value and structure, a review can also help drive employee engagement, says Bland.

"If you've got a great workplace pension scheme, why wouldn't you want to shout about it and encourage your staff members to make sure they are getting the most from it. Employers can play a key role in helping their workers to understand the value of this benefit and in turn, promote to their staff that they are valued and they care about their wellbeing. If your staff are feeling, happy, looked after and motivated, this can only have a positive impact on the business."

Written by John Devine, a freelance journalist