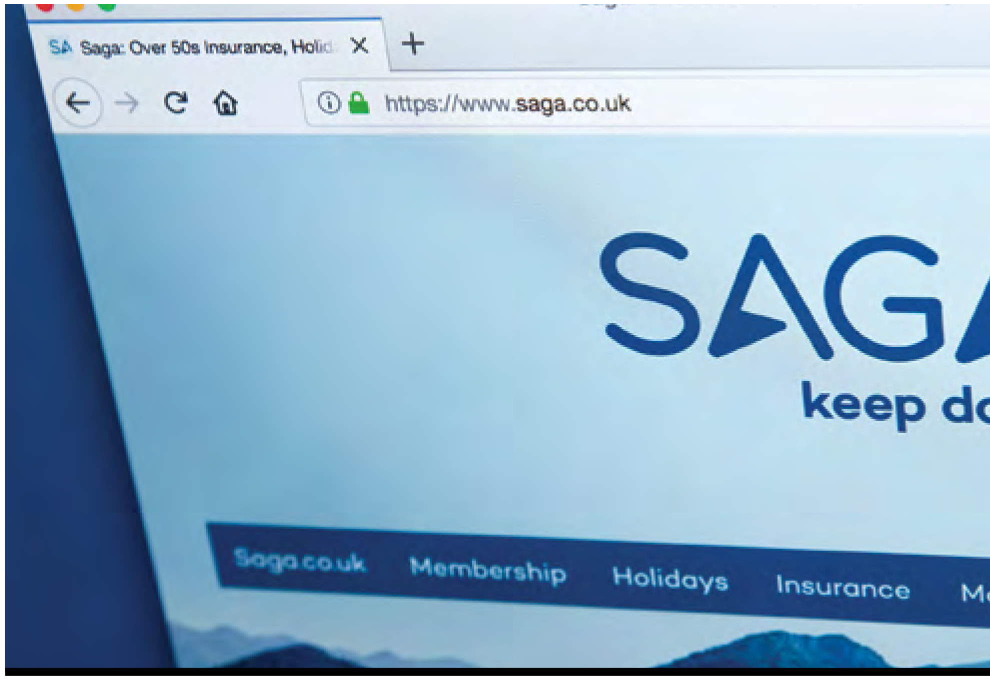


Averting a pensions Saga

Faced with the possibility of closing its pensions scheme, insurance provider Saga thought outside the box to keep its scheme open to members, boosting their financial wellbeing at the same time. Theo Andrew talks to Saga group HR director, Karen Caddick, about just how this was achieved

There is a lot to be said for being ahead of the curve when it comes to financial planning, particularly in the world of pensions, where the ability to affect change can often happen at a snail's pace.

Saga, while navigating itself through a headwind that many defined benefit schemes have been facing over the past decade, found itself in a position where something had to be done to mitigate the risks it, and its 4,000 employees, were facing.

Through careful communication, honesty and education, the group found innovative solutions to issues, which included a spiralling pensions deficit and employees who could not afford to save under the current scheme structure.

In the end however, Saga's solution allowed it to keep its scheme open, while also offering its employees financial wellbeing initiatives that could offer a blueprint for companies who are seeking to improve the future wellbeing of their employees.

Facing headwinds

The provider, which offers products and services exclusively for the over 50s, runs both its schemes with the day-to-day mantra of 'lead better lives in retirement'.

Its main scheme, the Saga Pension Scheme (SPS), open to all permanent employees, and the more expensive of the two, currently has 48 per cent of the workforce as its members. Alternatively, members could opt for the Group Personal Pension (GPP) scheme for slightly lower, more affordable contribution levels.

However, SPS found itself in a dire need for change. In the two years from January 2014 to January 2016, the actuarial valuation of the defined benefit scheme deficit increased from £15.6 million to a predicted £50 million.

This made a policy review of the scheme an urgent matter, explains Saga group HR director Karen Caddick.

"The reason we did it is because the scheme had become completely unaffordable. The deficit had trebled and the actual cost of contributions was going from about 12 per cent employer contributions up to 30 per cent. The cost had spiralled since we had done the last valuation."

"The question the board asked was to review the pension scheme. We didn't want to save money, we were happy for there to be an inflationary increase year on year, but we were concerned about the £20 million headwind coming towards us," she adds.

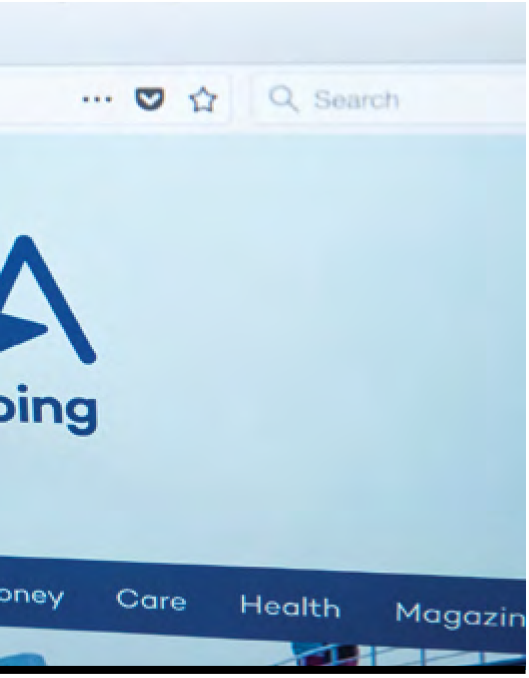
SPS total cost of future benefits had risen from 18.6 per cent to over 30 per cent of pensionable salaries, and without any respite in sight, how did the group choose to mitigate these risks?

Solutions

Just as many other large employers has done before them, Saga considered closing the scheme to future accrual, but felt for a number of reasons, it didn't want to bury its head in the sand.

With 48 per cent of its workforce enrolled in the SPS, and the remaining 52 per cent in the slightly less valuable GPP, the company wanted to find a way for all of its employees to be enrolled into a good pension.

The company conducted a review of its pension policy, obtaining 1,700 responses from employees on the existing scheme, and were not surprised to hear that for the longer-serving employees, the DB scheme was of tremendous value.



“We thought we’d actually end up closing the scheme, either to new entrants and future accrual as well, but a lot of people said to us we’d be prepared to pay more to keep this scheme open. So we looked at how we can de-risk the scheme so that the amount of money we are putting in is capped,” Caddick says.

Armed with strong employee incentive, and an understanding that closing the scheme to new members would fail to address the immediate cost issue, it decided to opt for a plan that would sustain it for the future.

In a collaboration with reward consultants, Only People, Saga devised a plan limiting the total combined cost of contributions to 20 per cent, at a time when members contributed 7 per cent to Saga’s 18.6 per cent to accrue 1/60th of their pensionable salary.

As a result, SPS members would now contribute 8.7 per cent for an accrual rate of 1/75th, with the ability for employees to trade up or down their rate, according to how much they could contribute.

Caddick says: “We said we’d peg that for three years because what we didn’t want to see is a whole load of people fall out the scheme, and we had 150 people who moved to 1/90th and that says to me those people probably would have opted out of the scheme if we hadn’t put that level in.”

As for the GPP scheme, after 12 months of service, an employee’s minimum contributions will be based on their full basic annual salary, and will be matched one-to-one employer and employee contributions, up to a cap of 10 per cent.

On its journey to understanding its employees’ needs, why some weren’t in the SPS and how highly those that were valued being in the scheme, Caddick found that other financial commitments were often getting in the way.

Caddick says: “What we recognise with employees is that a pension is important but it depends where they are in their life stage. They might be paying off student debts or saving for a deposit for a house.”

From this, Saga decided to offer a sidecar savings model, akin to, but not exactly the same as the recent sidecar trail that Nest launched in conjunction with Timpson.

“What we are saying to them is any saving is good saving, of course we want you to save as much into your pension as we can, but there might be certain points in your life where savings is as important,” she adds.

Employees, except for those in the SPS, can divert pensions contributions, which will be matched by the company, which will allow them to save for life’s milestones or simply save it for a rainy day.

Back on track

As a result of the changes, 20 employees dropped out of the scheme, a number Caddick thought was going to be much higher, while a similar number has taken up the savings scheme – something she believes tells you everything about what people can afford to save.

“About 20 to 30 people have taken up the savings scheme, but that shows

“Saga has managed to keep its pension scheme open, while also giving its employees a significant chance to save effectively alongside their retirement funds”

you that we have an affordability issue in the business, even the amount of people who have put more into their GPP, even though we’ve said if you pay more we’ll contribute more, there is not that may people who are taking advantage of it and people just can’t afford it,” she says.

For a business that looks to give people great benefits in retirement, it was important for Saga to give its employees great benefits at “costs we are prepared to pay for”.

One of the key points of feedback it received after Saga made the changes was how much the members appreciated the transparency from the group throughout the process.

“We’ve had really great feedback, the message was that this has become unaffordable and we need to work together to find a solution that is great for the employees and great for the business, but frankly what is going to happen is you’re going to get less benefit and it is going to cost you more money. The feedback we got is thank god you have been really honest with us,” Caddick says.

Saga has managed to keep its pension scheme open, while also giving its employees a significant chance to save effectively alongside their retirement funds.

The group is now undertaking plans to communicate the changes as effectively as possible, highlighting, in particular, the need for education and communication to improve members’ savings.

Written by Theo Andrew