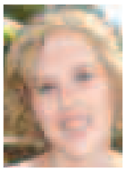

JULIA BERRIS REPORTS ON THE MIXED REACTIONS TO THE PENSIONS COMMISSION'S PROPOSALS.

Great debate, little agreement

Executive summary

- The funding of pension schemes remains a dominant issue for treasurers.
- Smaller companies have more to fear from Turner's suggestions than the bigger corporates.
- All corporates need to think about the structure of their pension schemes in the light of the Turner recommendations.

After the recent deluge of regulatory change surrounding pensions, the fear for treasurers is that the impact of the Turner report into pensions could eventually make life even more difficult for those companies still running pension schemes. In the short term the financial implications will not be so obvious. But, over the long term, pension reform will be a problem that corporates will have to face up to, and treasurers – even if they don't have direct responsibility – look set to be drawn in.

In particular, Turner's national pension savings scheme offers thought-provoking issues for those working in large and small companies.

Reg Hinkley, CEO of BP Pensions Trustees, says: "At the moment treasurers are facing up to the challenge of their funding issues. This will be the dominant issue for the next one or two years.

"The government needs to debate the proposals and how internal company benefits will be provided in relation to the savings scheme. Treasurers need to contribute and be involved in this debate."

SMALL COMPANIES HAVE MORE TO FEAR Answers to the question of affordability are different for small and medium-sized companies than they are for their larger counterparts.

John Hawkins, former Head of Finance and Risk at Invensys and now a writer on pensions, warns that smaller companies have more to fear from Turner's suggestions than the bigger corporates. "A lot of companies that already have pension schemes for virtually their whole staff will almost certainly be paying more than the basic level of contributions already. It will be the small and medium-sized companies that bear the brunt of these extra costs. It will have an unequal impact on companies."

Hinkley agrees, saying that the emphasis of concern is bound to differ depending on the size and structure of the company. Smaller companies will have to work out how they are going to make contributions to a national savings scheme that will cost more than they realistically can afford. The question of affordability is going to be crucial.

"At the top end, the bigger companies will, on the whole, want to continue with their present structure or some kind of variant," he says. "For example, many company pension schemes contribute more than the proposed national savings scheme and are specific to the company itself. Many would probably choose to maintain these schemes if possible.

"The question is, what is a viable way forward? If an employee sees competition on benefits that downplays the role of the company pension, the company will have to respond."

Treasurers will be required to play a part in the structuring of the company pension schemes.

Even though the Pensions Commission has suggested that its proposals should be implemented over a lengthy time frame, the social shifts and change in attitude to working will force companies to adapt their thinking and approach to providing pensions for their staff.

Hinkley says: "In the long term, companies should be thinking about structural benefits and the role it plays in pension benefits in the light of the kind of structure that Turner is putting on the table.

"The impact is subtle and the changes will not take place quickly. It will influence people on the margin. Companies will have to think about these arrangements and respond as circumstances evolve."

Some critics say that Turner has compromised and toned down his proposals for political reasons and possibly not gone far enough to reform the nation's pension plans. The report suggests maintaining a multi-tier approach for some time yet because the alternatives are too costly.

Hinkley says: "I think this is a tremendous piece of work. A lot of analysis and background has gone into it, which has really moved the debate forward. However, I do see the recommendations as a compromise. If I had a perfect world, I would have looked for a somewhat clearer vision of the longer term without as much reference to affordability."

Martin O'Donovan, Technical Officer at the ACT, agrees. He says that the proposals are not as dramatic as some might fear.

"Some of the proposals are almost quite modest," he says. "I think he's trying not to do anything too political. Really shifting the retirement age by a few years by the year 2050 seems like a drop in the ocean. You would have thought by then it would have been shifted to five years more and not just two."

Hawkins argues that the costs for the large corporations will increase by a manageable amount and, realistically, risk will not be an issue.

ZERO EFFECT ON RISK "There will be zero effect on risk because there is no mention of having to maintain better pension schemes and these are the ones that create the risk," he points out. "With cost, this will be noticed, but companies always face increased cost in one way or another. Another 3% to 4% on payroll is not a big problem. A lot of people at the margin will moan about it, but it won't kill them."

Although some, like Hawkins, do not see the pension reform proposals posing a major problem either in the short or the long term for corporates and treasurers, others predict huge changes that will remould business.

"Corporations have not fully appreciated the changes that regulations have put in place," argues Hinkley. "This, coupled with pensions, has significantly moved the goalposts in terms of the cost of the final salary schemes and the role that the trustees have to play.

"This is much bigger change than people have appreciated. I question whether this really is a sustainable proposition in the long term for all but the very large companies."

The national pension savings scheme may seem like a fair and appropriate proposal which will ensure that all employees have some form of pension for the future but there are issues with it. O'Donovan questions who will manage the savings and how it will work in practice.

"Will the government be running the scheme?" he asks. "I'm not too sure how I feel about the government becoming investment managers. Is the government really an expert on investment management? You have a whole professional world out there of pension fund managers and insurance managers who are good at that sort of thing. I would have thought the government should contract it back to the commercial sector."

Despite Turner's lengthy and detailed report, which has been created from extensive research and analysis, there still seem to be many unanswered questions. For treasurers, the question of cost and the fate of existing company pension schemes are of the utmost importance. They may not be immediate concerns but they will have long-term effects that need considering and preparing for sooner rather than later.

Julia Berris is a reporter on *The Treasurer*.

The gathering storm

Chair of the Pensions Commission Lord Turner said it was wrong to talk about a crisis of pensioner income today, but the problems in the UK's pension system will grow worse unless a new pensions settlement for the 21st century is now debated, agreed and put in place.

Three key issues are:

- people are living longer;
- people are not saving enough for retirement; and
- the state and employers aim to play a decreasing role in pension provision for the average earner.

These three factors mean that the current system will deliver increasingly inadequate and unequal pensions.

The key recommendation is the national pensions saving scheme into which all employees "without good existing provision" would be automatically enrolled but with the right to opt out. Minimum default employee contribution rates would be 5% of gross pay above £5,000, of which 1% would effectively be paid by tax relief; employers would be required to make matching contributions of 3%. Both employers and employees would be able to make additional voluntary contributions, and the self-employed would be able to join on a voluntary basis.

The Pensions Commission is an independent body set up to keep under review the regime for UK private pensions and long-term savings.