Employer attitudes to risk sharing in pension schemes: a qualitative study

Andrew Thomas and Anthony Allen

A report of research carried out by BMRB Social Research on behalf of the Department for Work and Pensions
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Summary

Background and research objectives

The White Paper *Security in retirement: towards a new pensions system*¹, outlined an integrated package of reforms designed to address the long-term challenges faced by the pension system and to encourage people to take personal responsibility for saving for retirement. One aspect of encouraging people to save more for their retirement is the availability of private pensions with an employer contribution of at least 3 per cent. The Government is committed to encouraging private pensions – Defined Benefit (DB), Defined Contribution (DC)², whether occupational or personal, or hybrid schemes – the emphasis being on providing members with an adequate retirement income.

Historically, pension provision in the UK private sector was largely provided through DB provision. However, active membership of DB schemes has fallen from around 8 million in the late 1960s to 1.6 million in 2006³. There are several reasons for this:

- poor performance of the financial markets since 2000;
- increase in life expectancy;

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² DB schemes are those that entitle members to a particular level of benefit depending on their length of service and their salary. The pension benefit is defined and it is then necessary to ensure that the contributions from both the employer and the employee are sufficient to provide that benefit. DC pension schemes are those into which an employer pays regular contributions fixed as an amount or percentage of pay. Benefits are determined by reference to the contributions paid into the scheme and the investment return on those contributions.

• increased member protection; and
• changes in accounting standards.

Employers have typically replaced DB schemes with some form of DC scheme.

The DWP commissioned a deregulatory review\(^4\) to look at how the private pension regulatory framework could be made simpler and less burdensome. This identified that there could be advantages for employers and employees in sharing the risk in DB schemes more evenly. As part of DWP’s continuing work on pension scheme risk sharing, a consultation\(^5\) was launched, designed to explore ways in which the Government can encourage and support pension provision that will provide an adequate retirement income and to gather evidence and opinions on risk sharing in occupational pensions.

DWP also wished to understand employers’ attitudes to pension risk sharing and commissioned BMRB Social Research to undertake a small piece of qualitative research to help inform their work on pension risk sharing. The research was designed to explore:

• employer attitudes towards risk sharing in pension schemes;
• employer perceptions of the barriers to risk sharing in pension schemes today;
• employer reactions to different types of risk sharing; and
• the likelihood of employers making changes to current or future provision if new flexibilities were introduced.

Methodology

The research adopted a wholly qualitative approach. Thirty face-to-face interviews were conducted with a range of employers that had taken part in the 2007 DWP sponsored Employers’ Pension Provision (EPP) survey and had agreed to being re-contacted\(^6\). A set of questions was asked at the recruitment stage in order to ensure that the individuals taking part in the research had sufficient knowledge of the company’s pension policy and were directly involved in decision-making about the scheme.

The sample of employers was purposively selected to reflect diversity across a range of key variables: type of pension provision (DC; DB – open, partially open


\(^5\) Risk Sharing Consultation; Department for Work and Pensions; 5 June 2008.

and closed), size (250+ employees) and industry (Manufacturing, Retail, Services and ‘Other’ industries).

The sample included employers with DB and DC schemes in order to compare views about risk sharing from both perspectives. In addition, the research was interested in employers’ intentions regarding their DB schemes and if they were anticipating changes, whether they would consider a risk-based approach. As it tends to be only larger employers that have a DB pension scheme, the sample was constructed around mainly larger employers with a DB scheme.

Fieldwork took place in May and June 2008.

**Employers’ reasons for providing a pension scheme**

Reasons for pension provision tend to focus around the three key areas of paternalism, maintaining parity with competitors and the fact that the company has always provided a pension. Reasons tended to be broadly similar across the different types of organisation interviewed, regardless of the current form of pension provision. The commonality may be, at least partially, due to the fact that many of the organisations currently operating a DC scheme also offered, or had previously offered, a DB scheme.

Although paternalism tended to be the reason cited for introducing a pension scheme to start with, industry pressure was a more commonly mentioned reason for continuing to operate a pension scheme.

**Past changes and future plans for pension schemes**

Almost all changes that had been implemented in the last five years related to existing DB schemes. All those employers who have operated a DB scheme (whether those schemes were now closed, partially open or open) said that there had been funding deficits and as a result they had been forced to implement a range of strategies in order to manage these deficits.

The main strategies that were mentioned included restricting the DB scheme – usually by closing it to new members and in some cases closing the scheme to existing members as well. However, there was also a general commitment amongst organisations still offering a DB scheme to maintain it for as long as viable, although this was balanced against an acceptance of the reality of financial risk.
Employers’ perceptions of the risks in pension schemes and of pensions risk sharing

Employers considered that both DB and DC schemes had risks but that with DB schemes, the risks were borne by the employer, while with DC schemes, the risks were borne by the employee. Typically, the risks associated with DB schemes were connected with fund performance, increasing employee longevity, the effect of inflation on the employer funding requirement and the impact of changes in pension legislation. For DC schemes, the risks were connected with fund performance, the variable cost of annuities and members’ lack of expertise in selecting the most appropriate fund for their situation.

While a small number of employers were aware of specific types of risk sharing pension scheme, most employers were either not aware at all or their awareness was limited to the concept of risk sharing only. Where there was awareness, this had generally been raised through conference attendance, the financial press and relevant websites.

Employers that were aware of pension scheme risk sharing were able to consider both the advantages and disadvantages. In terms of advantages, risk sharing was seen as enabling an employer to reduce their financial risks compared to a DB scheme and provide a better level of benefit to an employee compared with a DC or Group Personal Pension (GPP) scheme. By retaining some of the risk, the employer is seen as being better placed to make financial decisions. The ability to control some of the uncertainties of pension schemes through risk sharing was thought to potentially encourage employees to take more interest in pension provision.

The perceived disadvantages of pension scheme risk sharing included reduced benefits compared to a DB scheme; the greater uncertainties associated with risk sharing – such as revaluation and indexation – may discourage employees from taking an interest in pensions; a perception that the associated administration and revaluation would make such schemes more expensive compared to DC and GPP schemes; and that the additional flexibilities may make pensions communications with employees more difficult.
Employers’ views about two approaches to pension risk sharing

**Collective Defined Contribution (CDC) schemes**

There were considered to be no advantages of the CDC scheme compared to a pure DC scheme for an employer, but advantages over a DB scheme. For the employer these were:

- less expensive than a DB scheme;
- greater control over costs through revaluation, increases in pension and pension age, compared to a DB scheme; and
- more predictable funding than a DB scheme.

For an employee, there were no advantages over a DB scheme but for those enrolled in a DC scheme, the CDC approach was thought by employers to provide a more predictable level of retirement income for employees compared to DC schemes.

The perceived disadvantages for employers were:

- less certain funding costs compared to DC schemes;
- potential additional administration and costs associated with revaluations;
- the need to employ experts to administer the scheme;
- potential difficulties in communicating the benefits to members because of the additional complexities compared to DB and DC schemes; and
- difficulties in finding trustees.

From the employee’s perspective, employers also thought that CDC schemes would be unacceptable to some employees because:

- a CDC scheme would provide a smaller pension than a DB scheme;
- pensions in payment could be increased by less than inflation; and

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7 An occupational scheme in which employer contributions would be a fixed percentage of pensionable pay with contributions being invested in a collective fund. The pension earned would be calculated as percentage of earnings in each year of service and revalued each year to ensure that it maintains its value in real terms. However, neither revaluation, nor ultimately overall benefit levels, would be guaranteed but would instead be subject to the scheme’s funding levels.

8 If the CDC scheme is implemented as set out in the consultation document, the costs should be comparable with a DC or GPP scheme. However, employers did not see it this way and thought that the process of revaluation introduced both an element of risk and additional costs.
• they had a view that pensions in payment could be reduced in order to ‘balance’ the schemes’ liabilities with its income.

Employers were also interested to know how portable a CDC scheme would be and whether employees would have any control over how the funds would be invested.

Employers expressed some concern about the potential for future changes in legislation that could make CDC schemes more burdensome for employers and the absence of guaranteed revaluation and the ability to change pensionable age which they thought could make the scheme vulnerable to legal challenges by employees.

**Collective Indexation (CI) scheme**

Conditional indexation was seen to have five main advantages for employers, when compared to DB schemes:
• limits an employers’ liabilities and funding requirement;
• funding deficits are likely to be less volatile;
• limits funding deficits;
• longevity risks are managed; and
• reduces the ‘promotion rush’ just before retirement and reduces the maximum pension for which a member is eligible;

For employees, the universal application of indexation across all members is seen as very fair.

The perceived disadvantages for employers were all related to comparison with DC schemes. They were as follows:
• reintroduces employers with DC/GPP schemes to financial risk;
• increased financial burden for employers, compared with DC and GPP pension schemes;
• changing indexation levels could be seen by employees in a negative way as ‘cutting benefits’;
• indexation is complicated to explain to employees, making it difficult to promote and explain the pension scheme;
• concerns about the administrative burden and associated costs of defined benefits, trust-based pension schemes and the need to be regulated; and

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9 A career average scheme in which inflation-related increases are not guaranteed but instead would be conditional on the funding level of the scheme. The basic pension would remain guaranteed.
• the ability to change pension benefits based on conditional indexation and revaluation that meant that some employers said that they would feel unprofessional to administer such a scheme.

Employers also thought that employees may have some concerns about Conditional Indexation:
• Conditional Indexation would provide a lower pension than a DB scheme;
• the approach introduces greater uncertainty compared with DC schemes over pension provision because the employer can change many features of the scheme through indexation and revaluation;
• the ability to change pension age makes retirement age a ‘moving target’; and
• the complexity would make pensions complicated for employees to understand, which could affect their take-up of pension provision.

Employers also raised a number of queries about which that they would wish to have more information:
• How do indexation and inflation relate?
• How frequent are the revaluations?
• How detailed would the revaluations be and what would be the administrative costs of these to the employer?
• What happens to pensions in payment when there is a revaluation and the fund swings between surplus and deficit?
• How portable would a ‘career average’ pension be?

Encouragement to adopt a risk sharing approach

Few employers saw any advantage in adopting a risk sharing approach, and most – especially those operating a DC scheme – saw it as a step backwards. The approach was seen as more complex than current schemes and therefore, more difficult to administer. The perceived complexity would also make it difficult to obtain ‘buy in’ from employees, which would ultimately lead to a decline in take-up.

Employers would only adopt a risk sharing approach if there were to be external pressure – either through Government intervention and regulation or if their main competitors were to offer such schemes and thereby affect their ability to recruit or retain staff.
Conclusion

Employers expressed a continued commitment to providing a pension scheme to their employees, with some continuing to offer a DB scheme while others were offering a DC scheme to new members and employees.

Employers with open DB schemes were generally very committed to them and saw them as useful recruitment and retention tools for their sector. Where the DB scheme was either partially open or closed, employers were working towards further reducing their exposure and had set up DC schemes for new members and employees.

Employers with DC schemes expressed a high degree of satisfaction with their arrangements because the costs were predictable and meant they had no financial exposure. They expressed no interest in taking on any risk in relation to their pension schemes.

Overall, employers were generally sceptical about the risk sharing concept. They could not see any advantages for them, there were concerns about the real costs of risk sharing and there were perceived to be difficulties in communicating the benefits to employees.

During the risk sharing consultation period employers from both public and private sectors were invited to participate in smaller separate consultation workshops with DWP to discuss the issues around the risk sharing approach. The findings of this report were reinforced by the views that were expressed by the employers participating in the consultation workshops. Neither of the proposed risk sharing models held much appeal for any of the employers who took part in the consultation workshop. The current regulatory framework was already perceived to be overly complex and the concept of risk sharing was seen as adding to this complexity – with the consequence that it would be both difficult to implement and also to ‘sell’ to members. For those employers operating a DC scheme, the risk sharing approach was seen to offer no advantage to their current provision.
1 Introduction

1.1 Background

In the White Paper Security in retirement: towards a new pensions system\(^\text{10}\), the Government outlined an integrated package of reforms designed to address the long-term challenges faced by the pension system. The pension reforms are designed to put in place a pension system which is sustainable, equitable and suitable for future generations and that encourages people to take personal responsibility for saving. One aspect of encouraging people to save more for their retirement is the availability of private pensions with an employer contribution of at least 3 per cent.

Defined Benefit (DB) and Defined Contribution (DC) schemes are the most common form of pension provision. DB schemes are those that entitle members to a particular level of benefit depending on their length of service and their salary. The pension benefit is defined and it is then necessary to ensure that the contributions from both the employer and the employee are sufficient to provide that benefit. DC pension schemes are those into which an employer pays regular contributions fixed as an amount or percentage of pay. Benefits are determined by reference to the contributions paid into the scheme and the investment return on those contributions. The Government is committed to encouraging private pensions – DB or DC, whether occupational or personal, or hybrid schemes – the emphasis being that they provide members with an adequate retirement income.

Historically, pension provision in the UK private sector was largely provided through DB provision. However, active membership of DB schemes has fallen from around 8 million in the late 1960s to 1.6\(^\text{11}\) million in 2006. There are several reasons for


this, all of which had an impact on the cost of providing DB pensions:\footnote{Risk sharing consultation, Department for Work and Pensions, 5 June 2008.}

- poor performance of the financial markets since 2000, compared to very favourable performance of the financial markets before this time. This led to unrealistic expectations of returns from the financial markets and meant that pension providers underestimated the real costs of DB provision;

- increase in life expectancy, with a man aged 65 today expecting to live to 84, compared with 77 for his predecessor in 1950;

- increased member protection, such as rules on scheme funding, debt on the employer and changes to the administration of pension schemes; and

- changes in accounting standards, in particular the shift from SSAP 24 to FRS 17 and IAS 19\footnote{SSAP 24 deals with the accounting for, and the disclosure of, pension costs. It is being replaced by FRS 17. FRS17 is an accounting standard, issued by the Accounting Standards Board that sets out the accounting requirements for organisations that operate defined benefit pension schemes. FRS 17 brings greater transparency to accounting for retirement benefits, and brings into focus the costs and risks associated with defined benefit provision. IAS 19 deals with the accounting rules for other employee benefits, including wages and salaries, pensions, severance pay and long-service leave.}, which have changed the transparency of pension funding costs and have brought the pension scheme deficit and associated volatility onto the company balance sheet.

The majority of people who belong to an occupational pension scheme are members of either a DB or a DC scheme. With DB schemes the employer shoulders all of the risk associated with investment returns and increased life expectancy, while with DC schemes it is the employee that takes on the risk. Employers have typically replaced DB schemes with some form of DC scheme in order to manage the costs of providing an employee with pension provision. Risk sharing approaches attempt to strike more of a balance between reducing costs for employers and protecting members’ benefits. Risk sharing pension schemes are possible under the current regulatory framework through hybrid pension schemes, under which some benefits are accrued on a defined benefit basis and some on a defined contribution basis. However, other possible types of risk sharing schemes would require significant changes to legislation.

The DWP commissioned a deregulatory review\footnote{Deregulatory Review of Private Pensions: An independent report to the Department of Work and Pensions, Lewin, C. and Sweeney, E., July 2007} to look at how the private pension regulatory framework could be made simpler and less burdensome. This identified that there could be advantages for employers and employees in sharing the risk in DB schemes more evenly.
The implications of moving to a risk sharing approach need to be considered in detail. As part of DWP’s continuing work on pension scheme risk sharing, a consultation was launched, designed to explore ways in which the Government can encourage and support pension provision and to gather evidence and opinions on risk sharing in occupational pensions.

DWP also wished to understand employers’ attitudes to pension risk sharing, whether they would, in practice, favour a risk sharing approach over the two current extremes of DB and DC and the potential barriers to adopting risk sharing schemes. DWP commissioned BMRB Social Research to undertake a small piece of qualitative research to help inform their work on pension risk sharing.

1.2 Research aims and objectives

The aims of the research were four-fold. These were to explore:

• employer attitudes towards risk sharing in pension schemes;
• employer perceptions of the barriers to risk sharing in pension schemes today;
• employer reactions to different types of risk sharing; and
• the likelihood of employers making changes to current or future provision if new flexibilities were introduced.

1.3 Methodology

1.3.1 Research design

The research adopted a wholly qualitative methodology and was based on 30 face-to-face, qualitative depth interviews.

The interviews were conducted with employers that agreed to be recontacted for further research drawn from the EPP Survey 2007.

Fieldwork took place in May and June 2008.

Questions were asked during recruitment to ensure that the individuals taking part were knowledgeable about the company’s pension policy and were directly involved in decision-making.

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15 Risk Sharing Consultation, Department for Work and Pensions, 5 June 2008

1.3.2 Sample design and sample profile

The prime focus of the research was on employers’ views about risk sharing. The sample included employers with DB and DC schemes in order to compare views about risk sharing from both perspectives. In addition, the research was interested in employers’ intentions regarding their DB schemes and if they were anticipating changes whether they would consider a risk-based approach.

As it tends to be only larger employers that have a DB pension scheme, the sample was constructed around mainly larger employers with a DB scheme. The criteria for recruiting employers were as follows:

- employer size:
  - 250-499 employees;
  - 500-999 employees;
  - 1,000+ employees;

- current pension scheme:
  - defined benefit;
  - defined contribution, occupational and GPP schemes;

- DB scheme membership:
  - closed to new contributions (closed);
  - open to contributions from existing members only (partially open);
  - open to new members and to contributions from existing members (open).

Employer’s industrial sector was also recorded.

The profile of employers interviewed is shown in Table 1.1.
Table 1.1  Profile of employers interviewed

<table>
<thead>
<tr>
<th>Pension scheme (as defined by EPP 2007)</th>
<th>Total = 30</th>
</tr>
</thead>
<tbody>
<tr>
<td>DB closed</td>
<td>7</td>
</tr>
<tr>
<td>DB partially open</td>
<td>8</td>
</tr>
<tr>
<td>DB open</td>
<td>7</td>
</tr>
<tr>
<td>DC/GPP</td>
<td>8</td>
</tr>
<tr>
<td>Employer size</td>
<td></td>
</tr>
<tr>
<td>250-499</td>
<td>10</td>
</tr>
<tr>
<td>500-999</td>
<td>7</td>
</tr>
<tr>
<td>1,000+</td>
<td>13</td>
</tr>
<tr>
<td>Sector</td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>3</td>
</tr>
<tr>
<td>Retail</td>
<td>4</td>
</tr>
<tr>
<td>Services</td>
<td>16</td>
</tr>
<tr>
<td>Other</td>
<td>7</td>
</tr>
</tbody>
</table>

Employers often had more than one pension scheme. When the employer was recruited they were assigned to the study on the basis of one of their pension schemes. This formed the main focus of the interview. However, key topics were also discussed in relation to the other pension schemes that the employer provided.

A profile of the other pension schemes also offered by the employers in the study can be found in Appendix A.

1.3.3  Conduct of the interviews

All the interviews were exploratory and interactive in form so that questioning could be responsive to the experiences and circumstances of the individuals involved. They were based on a topic guide (see Appendix B), which outlined the key themes to be addressed and the specific issues for coverage within each. Although topic guides ensure systematic coverage of key points across groups of people, they are used flexibly to allow issues of relevance for participants to be covered. Show cards were used as a stimulus material to help facilitate the discussion around two types of pension risk sharing approach (see show cards within the topic guide in Appendix B for details). All the interviews were recorded after first securing the agreement of participants.

The interviews were carried out in the respondents’ offices and the interviews lasted approximately one hour.

1.3.4  Analysis of the findings

Verbatim transcripts, produced from digital recordings, were subject to a rigorous content analysis (Matrix Mapping), which involved systematically sifting, summarising and sorting the verbatim material according to key issues and
themes within a thematic framework. These analytic charts formed the basis of
the evidence reported in the following chapters. Further details of the analytical
process used can be found in Appendix C.

Adopting a qualitative approach has made it possible to report on the range of
views, experiences and suggestions reported by participants. Where evident,
distinctions have been drawn between different sub-groups, in particular different
sizes of employers as well as their current pension provision. The manner in which
the sample design is constructed as well as the small sample size, however, means
that the study does not provide any statistical data relating to the prevalence of
these views. The aim of qualitative research is to define and describe the range of
emergent issues and explore linkages, rather than to measure their extent.

The findings have been illustrated and illuminated with the use of verbatim
quotations. The quotations have been edited for clarity but care has been taken
not to change the respondents' meaning in any way – alterations are shown using
parenthesis and ellipses.

Quotations are attributed, anonymously, using the following convention:
(Pension scheme type; employer size; employer sector)

1.4 Report structure

This report outlines the findings from the qualitative research in six further
chapters:

• Chapter 2 considers employers’ reasons for providing a pension scheme;
• Chapter 3 explores past changes and future plans for pension schemes;
• Chapter 4 explores employers’ perceptions of the risks in pension schemes and
  of pensions risk sharing;
• Chapter 5 considers employer’s views about two approaches to pension risk
  sharing;
• Chapter 6 asks employers whether they would consider any form of risk sharing
  approach to pension provision and under what conditions;
• Chapter 7 draws the findings together and presents a set of conclusions.
2 Employers’ reasons for providing a pension scheme

Before discussing awareness of risk sharing and the perceived pros and cons of such schemes in more depth, employers were first asked to explain the overall reasons why their firm provided a pension scheme to its employees at all.

Reasons for pension provision tended to focus almost exclusively around three key areas:

• historical reasons – in other words, the firm has ‘always’ had a pension scheme in place;
• paternalism – the firm wants to ‘look after’ its employees; and
• staff recruitment/retention – the firm needs to maintain parity with competitors.

Often, more than one of these reasons was mentioned, and there was occasionally considerable overlap or correlation between the factors driving pension provision:

‘Originally it was to get staff, to make them feel wanted.’

(DC; 250-499 employees; Services)

‘Two key reasons. One, it’s become a requirement I think in terms of being market competitive. If you didn’t have a pension plan you would be below the market just by the fact of not having one. Secondly, to provide an additional financial element of a reward package which effectively helps employees in their retirement.’

(DB – partially open; 1,000+ employees; Legal)
The reasons for offering a pension scheme tended to be very similar across all types of employer, with no discernable differences between those employers who are operating DB schemes (whether those schemes are closed, partially open or open) and those who are offering DC schemes.

This consistency in response may be due to the fact that reasons for pension provision are largely similar, regardless of the specific form that the pension provision takes. The commonality might also be at least partly related to the nature of the organisations included in the sample composition – in other words most of the employers with DC schemes who were interviewed also have closed DB schemes and tended to be large employers.

2.1 Historical reasons

For many employers, the company had offered a pension scheme of some kind for such a long period of time that the initial reasons for putting it in place had long been forgotten – their company offered a pension scheme simply because they had always done so.

‘[This company] has grown out of an organisation [long established firm] that has a very long history of providing occupational pensions.’

(DC; 1,000+ employees; Retail)

Where a pension scheme had been in place for some time, it was generally assumed that the initial trigger for opening up a pension scheme was either due to a paternalistic approach to the firm’s workforce, the negotiating power of trades unions or to remain competitive with other companies in that industry.

‘If people dedicate themselves to your business then it is only right that you should make provision for them when they retire or are no longer working for you. That I think was the initial philosophy and of course now it is important to be able to provide a reasonable pension scheme and to be competitive in the employment market.’

(DB – closed; 1,000+ employees; Services)

2.2 Paternalism

The view was often expressed that an employer has a responsibility to care for its workforce, with pension provision being an essential aspect of this.

‘We’re actually a family business and we do care about the employees.’

(DB – partially open; 500-999 employees; Retail)

Employers indicated that in these instances it was well known that the original trigger for offering a pension scheme was a paternalistic approach and that this was a view that continued to be maintained by the owners or major private shareholders of the company.
Although paternalism is often cited as the original reason for offering a pension scheme, especially where the company has offered a DB scheme, the ongoing reasons for current pension provision tend to be more related to maintaining a level playing field within the industry.

Encouraging employees to sign up to pension schemes – and promoting the existence of the pension scheme offered by the company amongst the workforce – is also seen as part of this paternalistic role, especially where take-up is low, for example because of low incomes.

‘A lot of people who work for us are low income workers who obviously don’t think about joining a pension scheme.’

(DB – open; 1,000+ employees; Services)

2.3 Recruitment and retention tool

Pension provision is often seen as a means of maintaining parity with competitors in the same industry, and it is perceived as providing a key aspect of a remuneration package:

‘We base our reward package around market practice and it is still the practice to offer a pension scheme, so that’s why we do it.’

(DB – partially open; 250-499 employees; ‘Other’ sector)

‘If our competitors are providing a benefit package then we have to make sure we’re matching it.’

(DC; 1,000+ employees; Manufacturing)

‘I guess really the reason we have [the DB scheme] is because everybody else does, that’s the real reason. Historically I think there was a much more paternalistic attitude…It’s now quite a big retention tool.’

(DB – partially open; 1,000+ employees; ‘Other’ sector)

In those industries where DB schemes are still the norm, firms see this as an essential recruitment tool – in spite of the costs of operating such a scheme:

‘We recruit a lot of people from the university and the NHS sector where there are still defined benefit plans. We need to be able to recruit top scientists and if they’re working in the university sector or in the NHS we need to make sure that we can actually encourage them into our organisation…So while the NHS and the university sector remain defined benefit then we will try to remain defined benefit. We may not be able to but…that’s our current position.’

(DB – open; 1,000+ employees; Services)
In these instances a high quality pension provision in the form of a DB scheme was expected of their sector. This was particularly so for charities or not-for-profit organisations.

Employers with all types of DB schemes considered that for long-standing staff, their pension scheme acted as a retention tool as employees would be unable to obtain comparable pension provision if they changed employers.

There was some indication that such pension provision could have a downside by retaining employees that the employer would prefer to move on.

‘I know a lot of people who aren’t particularly happy with the job that they’re doing and they’re not willing to move because of the DB scheme.’

(DB – open; 500-999 employees; Services)

2.4 Other reasons for retaining a pension scheme

Occasionally, two other reasons were mentioned for retaining a pension scheme.

Employers with partially open or closed DB schemes did so, either under trades union pressure or because of the perceived self-interest of senior members of staff who were members of the scheme and had considerable influence over the pension scheme decision-making.
3 Employers’ pension provision – past changes and future plans

This chapter considers how employers may have changed their pension provision in the past, specifically the past five years, and explores whether they have any plans for making changes to their pension offering in the future.

3.1 Past changes

Employers were asked whether there had been any changes to their pension scheme arrangements over the past five years.

Where there had been changes in pension scheme arrangements, these mostly tended to relate to existing DB schemes.

All those employers who have operated a DB scheme (whether those schemes were now closed, partially open or open) said that there had been funding deficits and as a result they had been forced to implement a range of strategies in order to manage these deficits.

The main strategies that were mentioned included closing the DB scheme to new members and in some cases closing the scheme to existing members as well.

For one organisation, closing the scheme was ultimately perceived to be the only viable means of managing the deficit, following several attempts to make up the deficit through increased one-off contributions by the company:

‘It was really volatility of costs, predictability. We had had a fairly long period with a surplus and then a deficit emerged. The company made several, what it considered large, one-off contributions to the DB scheme and then lo and behold at the next valuation there was still a deficit so it was really [the] unpredictability of it and trying to just attempt to put a lid on that.’

(DB – partially open; 250-499 employees; ‘Other’ sector)
Where the DB pension scheme was closed to both new and existing members, existing members were offered the opportunity to contribute to the replacement DC scheme while simultaneously retaining their benefits in the closed DB scheme:

‘The final salary scheme...has been closed to new entrants since 2001 or 2 and we are closed to accruals or anybody below the age of 60 from the 1st October 2005. [This was due to the] increase in the liabilities that were going through year on year. It was felt further steps needed to be taken to limit the escalating liabilities.’

(DB – closed and DC; 250-499 employees; Services)

In almost all cases where a DB scheme was closed to new employees, employers set up a DC scheme for new employees to take its place:

‘The key change was closing the final salary scheme which we did about five years ago, and allied to that of course the creation of GPP\(^7\). We are reviewing the contribution structure actively for the GPP and the changes will come into place on the 1st September, to simplify it.’

(DB – partially open; 1,000+ employees; Legal)

One company with 1,000+ employees put in place a Stakeholder\(^8\) pension scheme with no employer contribution (with no take-up) and increased all salaries so that employees could make the decision as to if, and how, they wanted to use the additional money to provide for a retirement income. This contrasts with the generally paternalistic approach seen elsewhere:

‘We’re basically the opposite of a nanny state here, we pay people the right amount and we expect them to get on with their own lives and make their own judgments.’

(DB – closed; 500-999 employees; Services)

Other measures taken by firms included retaining the DB scheme for new and existing members but increasing the employee contribution rate; other firms opposed this measure because of the potentially demotivating effect on staff.

In other cases, while closing the DB scheme to new members, existing members were still allowed to make new contributions to the old DB scheme or the DB scheme was moved from being non-contributory to a scheme with employee contributions.

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\(^7\) A Group Personal Pension is a pension scheme arranged by an employer where contributions are paid into a plan owned by the employee. The money in the plan is invested on the employee’s behalf, and when they retire the fund is used to buy an annuity.

\(^8\) A Stakeholder pension is a type of low-charge pension that must satisfy a number of minimum Government standards to ensure that they offer value for money and flexibility. A Stakeholder pension may be bought from a commercial financial services company, such as a bank, insurance company or building society.
‘We have two schemes, our old defined benefits scheme which closed to new joiners in April 2006, and for those new joiners from April 2006 we have a Stakeholder pension scheme... [The DB scheme] is still open to further accrual for the people who joined before that. It used to be non-contributory and we changed that in 2003 and introduced an employee contribution.’

(DB – partially open; 250-499 employees; ‘Other’ sector)

Other organisations made changes to a range of aspects of the pension scheme in order to reduce deficit. Such changes included amending the definition of ‘pay’ so that pension scheme contributions were only made on basic pay, rather than also including overtime, bonuses, etc., reducing the accrual rate and increasing the pensionable age from 60 to 65.

In all instances where changes had been made to a DB scheme, employers gave the same reasons for making such changes – a need to reduce costs to the employer and the minimisation of financial risk and uncertainty.

One employer converted their Final Salary DB scheme to a CARE19 scheme. There was another instance in which the employer closed a DB scheme and transferred the benefits to a DC scheme. With the exception of the employer mentioned above, the closure, or partial closure of a DB scheme, went hand in hand with the setting up of a DC scheme.

In the present study, three employers had set up Stakeholder pension schemes, two of which involved an employer contribution.

None of the other employers had considered other alternative pension schemes – such as risk sharing schemes – when closing or changing a DB scheme other than setting up a DC scheme or offering a Stakeholder pension.

This was generally because no alternatives to a DC scheme were considered to be available – awareness of risk sharing models was limited.

However, in a couple of cases, there was a view that although they were aware of alternative schemes, they were relatively new and untested.

For example, one firm switched to a Stakeholder pension scheme in 2002. Risk sharing approaches – specifically career average schemes – may have been considered but it was felt that they had not been around long enough to be confident of the benefits.

19 CARE stands for Career Average Revalued Earnings. CARE schemes are similar to defined benefit except that in calculating the pension, the earnings a member has in each year of employment are taken into account and an average of all of them is calculated. In order to maintain the value of pension earned each year the earnings are revalued up until the time that a member retires or leaves the company.
'We possibly would have considered them, I don’t think they would have poo poo’d them out of turn, I think they would have listened to what people were saying. But I think it is something that has developed in the last few years, isn’t it really? They weren’t that mature in 2002.'

(DB – partially open; 1,000+ employees; ‘Other’ sector)

None of the employers with DC schemes had made any changes to them over the past five years. If the DC scheme was set up more recently, then no changes had been made to the scheme since their inception.

3.2 Future plans

Employers were also asked about their future plans regarding their current pension schemes. Any anticipated changes to current pension arrangements tended to relate to existing DB schemes rather than DC schemes.

3.3 Employers with DC schemes

One employer was planning to change their DC scheme to a CARE scheme. This was a very large ex-public sector employer that had come under trades union pressure to make such changes.

None of the remaining employers had any plans to make any changes to their DC pension schemes in the future.

3.4 Employers with DB schemes

There continues to be a general commitment to DB schemes amongst those firms which still have an open DB scheme in place – with some firms planning to continue with their current DB scheme for as long as possible.

Reasons for continuing to operate an open DB scheme tend to be mostly due to expectations within that particular sector – especially public and third sectors – where DB schemes are still the norm, although it was recognised that parity with competitors within the industry still has to be balanced against the financial realities and liabilities of operating such a scheme.

‘Going forward we will stay with that defined benefit option while the public sector sticks with that. Part of the brief is to maintain a watch on what’s happening with the NHS and the USS, university schemes. The other thing is to maintain a watch on costs because even if we didn’t want to move away from that public sector view we might be forced to because of the cost.’

(DB – open; 1,000+ employees; Services)

However, other employers with a DB scheme were considering a range of options, which varied according to whether the DB scheme was closed, partially open or open. These are described here.
3.4.1 Employers with closed DB schemes

- Several employers were planning to make up any funding deficit in the scheme before selling the scheme on to an insurance company. In most cases these were long-term plans as it was not clear when they would be in a position to make up the deficit:

‘Our plan is to get [the final salary scheme] fully funded at some point in the future and then move it out, but that’s a long way off…’

(DB – closed; 500-999 employees; ‘Other’ sector)

- A plan to review the accrual rate in order to reduce the deficit:

‘The company looked at a whole range of different measures, things like changing the definition of pensionable pay, changing the accrual rate which is the calculation used for calculating benefits. There was a whole shopping list of things that we looked at.’

(DC and closed DB; 1,000+ employees; Travel)

3.4.2 Employers with partially open DB schemes

- An intention to continue the scheme as long as possible, sometimes because of trades union pressure or the perceived self-interest of senior company directors.

‘The [employer] has shown total commitment to keeping the scheme open and said that if the members were prepared to reduce future liabilities then they would actually sort of pay off any deficit that was there.’

(Partially open DB; 250-499 employees; ‘Other’ sector)

‘I think they will maintain them and in terms of the final salary schemes they are likely to look to just running them until a point where the members are getting of an age where they are no longer employed or there are very few employed, at which point they will probably close them down by buying them out; I don’t envisage that there will be big design changes over the next five or ten years.’

(Partially open DB; 1,000+ employees; Travel)

- A plan to move from a non-contributory to a contributory basis or increase the employee contributions. This was seen as a preferable approach to having to close the DB scheme altogether.

- Some consideration of moving new and existing members over to a DC scheme:

‘If the situation doesn’t get any better then the next thing is just to close it to future accrual. If the scheme ever ended up in surplus again, in sufficient surplus that you could sell it and just get rid of it, I think [we would] do it.’

(DB – partially open; 500-999 employees; Retail)
3.5 Employers with an open DB scheme

Where the scheme membership is small compared to the overall workforce, the employer may be considering, in the light of the workplace pension reforms being brought in during 2012, of selling the scheme on to an insurance company and setting up a GPP or DC pension scheme:

‘We’ve started to talk about it [selling the scheme on], because of the onset of [the workplace pension reforms] coming out in 2012. Then there’s the opportunity to try and change the benefit design of the scheme, that’s going to be a lot of work I think.’

(DB – open; 1,000+ employees; Services)

In each of these scenarios, where employers have decided that they do not wish to maintain an open DB scheme, the emphasis for the employer was on minimising the possibility of future funding risks and uncertainties and moving to a position where their financial contribution was defined and therefore, had the least financial risk.
4 Perceptions of pension scheme risks and risk sharing

This chapter considers employers’ perceptions of the risks inherent in providing a pension scheme to employees. During the interviews the concept of risk sharing was introduced, with employers being asked to consider the advantages and disadvantages of such an approach. This is considered towards the end of this chapter.

4.1 Employers’ perceptions of pension scheme risks

When considering the financial risks attached to pension provision, employers were of the opinion that DB and DC pension schemes reflected polar opposites in terms of where the risks lay. DB pension schemes were seen to place the risk with the employer, DC schemes placed the risks with the pension scheme member:

‘With the DB, I think the employer takes all the risk. But the DC, I think DC is purely a matter of timing as to when you retire, as to whether you get a decent pension or not.’

(DB/GPP; DB – partially open; 1,000+ employees; ‘Other’ sector)

‘I think at the moment the industry tends to think very much in terms of defined benefit where the risks are really carried by the employer and defined contribution where it switches right across, particularly investment risk.’

(DB – open; 1,000+ employees; Services)
4.1.1 Perceived risks with DB pension schemes

For DB pension schemes, the key financial risks were seen to fall to the employer. The risks were four-fold:

- variable investment fund performance, leading to considerable uncertainty about the required employer funding levels over time:

> ‘The investment risks. We invest with managers and the strategy of the fund is to make sure there is enough funding in the scheme. And that’s obviously a big risk in investing in the stock market; it fluctuates from year to year depending on what happens.’

(DB – open; 1,000+ employees; Services)

- increasing employee longevity, requiring additional funding in order to meet future pension provision. There was some concern that actuarial valuations had not taken sufficient account of increasing longevity:

> ‘…well of course people are living a lot longer too, which makes the final salary schemes much more expensive because they have to pay out for longer.’

(DB – closed; 1,000+ employees; Services)

- inflation, both the variable nature of inflation and the potential impact this has on the employer funding requirement over time;

- changes in pensions legislation, with the Pension Protection Fund (PPF) levy being specifically mentioned:

> ‘Just the sort of unknown really, because legislation keeps changing, things like the PPF levy, you know, all these things, are just making it a much harder thing to run.’

(DB – partially open; 1,000+ employees; ‘Other’ sector)

Employers did not consider that DB pension schemes posed any risk for employees other than a scheme being unable to meet its pension commitments and the employer becoming bankrupt.

4.1.2 Perceived risks with DC pension schemes

For DC pension schemes, the key financial risks were seen to fall to the employee. The risks were three-fold:

- variable investment fund performance, resulting in an uncertain pension pot:

> ‘In a way it’s the same as for final salary schemes. It’s the investment risk, but with GPPs and DCs, of course, the risk is borne by the member.’

(DB – open; 1,000+ employees; Services)

- members lack of expertise in selecting an appropriate investment fund and inadvertently selecting an under-performing fund; and
• the variable cost of an annuity (variable annuity rates), which would have a direct impact on the amount of pension payable. In relation to GPPs one respondent said:

‘With a DB scheme the member knows what their pension will be because it’s based on final salary, but with GPP schemes the pension will depend on the fund and the annuity rate at the time they buy their annuity – and that can vary considerably over time.’

(DC and DB – closed; 250-499; Services)

In addition, employers considered that there were two risks that they faced with DC (but not GPP) schemes. Both of the risks arose from the governance aspect of DC schemes. These were:

• the increased difficulties of identifying people willing to become pension scheme trustees, the difficulty increasing because of the additional responsibilities of scheme trustees and some fear of litigation if the trustees were shown to have made incorrect decisions; and

• the cost to the employer of supporting pension scheme trustees:

‘We find that because being a trustee is much more onerous it is difficult to find people willing to do the job. We have to support the trustees in terms of time off work, training and so on. So it is all a cost to us so in that way the DC scheme is a bit of a risk to us.’

(DC; 250-499 employees; Services)

4.2 Employer’s perceptions of pension risk sharing

Following the discussion of the risks associated with providing a workplace pension scheme, employers were asked about their awareness of, and views about, pension scheme risk sharing.

With the exception of a small number of employers that were aware of specific risk sharing approaches to pension provision, such as ‘Career Averaging’ and the CARE scheme, employers were equally divided between those that were not aware at all of pension risk sharing and those that were aware of the concept only. There were no differences in awareness between employers with open or closed DB or DC schemes nor by employer size or industry sector.

Where there was some awareness of pension risk sharing this had been through attending recent pensions conferences and through the ‘Pension Age’ and ‘Pensions World’ websites. The Financial Times and Pension Managers internet chat rooms were also mentioned as sources of information. In addition, one respondent in the study had been responsible for implementing a risk sharing approach to pension provision for a previous employer.
A handful of employers in the study were aware that pension risk sharing approaches had already been adopted by some large employers, with British Aerospace, Cadbury Schweppes and Barclays Bank all being mentioned. However, none of the employers mentioning these examples were aware of any of the detail of the approach that had been adopted.

Employers that were aware of the concept of pension risk sharing were able to comment on what they saw as the advantages and disadvantages of such an approach.

The perceived advantage of a pension risk sharing approach for employers is that it enables them to reduce the overall risk of a DB pension scheme:

‘The nature of the company here is that they would lean towards taking the risk themselves, what they’ve always done. The positive, I suppose, is that the risk and the cost is shared.’

(DB – open; 500-1,000 employees; Services)

The perceived advantages of a pension risk sharing approach for the employees were:

• enables a better level of benefit to be enjoyed by the employee, compared to a ‘pure’ DC/GPP approach;

• an employer is better placed, and has more expertise, in taking financial risks than employees; and

• a view that the flexibilities, such as indexation and revaluation, may encourage employees to take more interest in pensions and retirement financial planning.

‘I think it could get employees interested in pensions because unlike GPP schemes where nothing seems to be under control, with a risk [sharing] approach there are a specified number of features that are variable and I think that potentially makes it more manageable for people and potentially more interesting.’

(DC/GPP; DB – partially open; 1,000+ employees; ‘Other’ sector)

The perceived disadvantages of a pension risk sharing approach for employers were:

• risk sharing approaches were thought to be likely to be administratively more complex than DB or DC schemes. This was because there were likely to be additional administrative processes and calculations to be undertaken over and above that for a DB pension scheme, while insurance companies undertook the majority of the administration for DC/GPP schemes. The consequence was that employers thought that the additional complexities and potential additional administrative costs, may dissuade them from offering a risk sharing pension scheme:
‘Complex for the members who are ultimately the beneficiaries and indeed the companies who have to administer them, [risk sharing pensions] don’t actually go along the lines of being terribly simple.’

(DB – closed and a GPP; 1,000+ employees; ‘Other’ sector)

- communicating pension information to employees was already difficult; adding flexibilities and uncertainties in the form of pension risk sharing was thought to introduce an additional layer of complexity to the communication process; and
- encouraging employees to accept flexibilities. Employers thought that it was easy for employees to accept a DB scheme with no apparent risk to themselves and a DC scheme with completely unspecified uncertainties, compared to a scheme that encompassed a number of specified uncertainties. Indeed, employers with open DB schemes thought that not only was it unacceptable for employees to shoulder any of the risk but they also were of the opinion that employees were not ready to accept the risks inherent in a risk sharing approach to pension provision:

‘I just think that pensions are difficult for people at the best of times. DB schemes, people know what they are getting so they are not concerned; GPPs are like a black box. You put money in and in so many years you get money out. No worries, well at least no apparent worries. But, introduce things that people need to take account of, or be aware of, then I think that will be an uphill struggle.’

(DB – open; 1,000+ employees; Services)

The perceived disadvantages of a pension risk sharing approach for employees were:

- reduced pension benefits compared with a ‘pure’ DB pension scheme. This was of particular concern to those employers that explicitly stated that they provided a pension scheme for paternalistic reasons;
- compared to a DB scheme the additional uncertainties introduced by risk sharing may reduce employee interest and confidence in pensions; and

‘It might mean that a lot of people may not want to join the scheme; there’s too much risk attached to it and the employer is not taking all the risks for them.’

(DB – open; 1,000+ employees; Services)

- a view that if the employer is making the investment decisions, it is unfair on the employee if the employee then has to accept a series of flexibilities or uncertainties.

Taking the findings as a whole, employers were able to see both the advantages and disadvantages of risk sharing. This was irrespective of the type of pension scheme that they currently offered. However, for employers committed to providing an open DB scheme, risk sharing meant offering employees a potentially smaller retirement benefit. For employers committed to a DC scheme or moving to a DC
scheme, the risk sharing approach presented employers with greater uncertainty about their future financial commitment and exposed them to a financial risk that they did not want to entertain.

Nevertheless, employers with open DB schemes continued to prefer such schemes because they provided members with a guaranteed retirement income. By contrast, employers with DC schemes (even if they had partially open or closed DB schemes) preferred the DC approach because it meant that the employer bore no financial risk as they could predict, in advance, their financial commitment. They were unconcerned about the uncertainties in retirement income that were attached to DC pensions; in their view the employer was fulfilling its obligations by contributing to the employees’ pension fund. However, some of the employers pointed out that relatively few people were drawing a retirement pension based on a DC scheme and that if the income proved to be very low then there may be cause to re-evaluate whether a pure DC approach was appropriate:

‘I think time will tell…if enough people end up with tiny pensions because they have had a GPP then there will be pressure to do something else. I can’t see anyone [employer] going back to final salary [schemes] because the financial burden would be too great but it is possible that a middle way might be needed and that could be a risk sharing way.’

(DB – partially open and GPP scheme; 250-499 employees; Services)
5 Employers’ views about two approaches to pension scheme risk sharing

This chapter is concerned with employer responses to two potential approaches to pension scheme risk sharing. The two risk sharing approaches were a Collective Defined Contribution (CDC) Scheme and a Conditional Indexation (CI) Scheme, details of which may be found in the topic guide in Appendix B.

DWP provided the descriptions of the two approaches to pension scheme risk sharing, which were used verbatim and without change. Employers were given time to read through the examples during the interview and consider the key features in detail. No further information was provided about the two schemes. The examples were discussed in a random order.

In discussing the two schemes it was clear that some employers found the ideas quite difficult to comprehend and in some instances felt that they needed more detail in order to make a more rounded set of comments. This was not a reflection on the descriptions provided but it was clear that for those employers that were not previously aware of risk sharing, the concept could be difficult to comprehend. In other instances, employers considered that they needed more detail about the likely associated costs of such schemes, together with case illustrations, before they could fully comment on the risk sharing approach.

When discussing the two risk sharing approaches, employers tended to take a helicopter view and considered the perceived advantages and disadvantages from a wide range of perspectives. Consequently, they discussed the approaches in terms of both DB and DC provision and from the perspective of both the employer and the employee.
Overall, employers that were committed to providing a DB pension scheme, whilst seeing the financial advantages to the employer, considered risk sharing to be disadvantageous to the employee. By contrast, employers that offered a DC/GPP scheme, whilst recognising the potential advantageous to the employee were concerned that they would be taking on an additional risk and financial burden.

5.1 Collective Defined Contribution (CDC) scheme

The description of the key features of the CDC scheme that were presented to employers is shown below.

**Collective Defined Contribution (CDC) scheme – key features**

- In this occupational scheme, employer contributions would be a fixed percentage of pensionable pay. The employer would, therefore, be able to predict their contributions with some certainty.
- The pension earned would be calculated as a percentage of earnings in each year of service and revalued each year to ensure that it maintains its value in real terms. Revaluation would not be guaranteed but would instead be subject to the scheme’s funding levels.
- Contributions to the scheme would be invested in a collective fund, rather than in individual accounts. This could save the employer money as it may be cheaper to run one large fund than many individual accounts. At retirement, an index linked annuity would be secured for the member from the collective fund.
- The trustees of the scheme would be able to control the size of the benefit liability to keep the scheme’s financing in balance by adjusting:
  - revaluations before pensions commence;
  - pensions increases when in payment; and
  - the pension age at which standard benefits are paid.

Employers could see a number of advantages and disadvantages with the CDC scheme. They also raised a number of queries. These are presented in Sections 5.1.1 to 5.1.5.

5.1.1 Advantages of a CDC scheme for employers

There were considered to be three key advantages of the CDC scheme, compared to a DB scheme, for employers. These were:

- a CDC scheme was considered to be less expensive than a DB scheme to the employer because the pension payable was calculated for each year of service, rather than on the final year, or years:
'It will reduce the risk to employer – averaging. It’s actually basing a pension on a much more consistent basis of what’s being paid into the scheme, so if you base the pension upon what’s going in rather than what you have to be earning at the end of the term, it would mean that there would tend to be fewer deficits, funding deficits.’

(DB – partially open and GPP scheme; 250-499 employees; Services)

- employers welcomed the ability to adjust revaluation, increases in pension and pension age as it gave them greater control over the immediate and longer-term costs of the pension scheme; and

  ‘[Revaluation] gives a tool to the administrators and to the trustees to manage the liability to make sure that it’s not open ended… it’s something that takes account of the available funds rather than putting all of the emphasis on the employer just to plug the gap.’

(DB – closed, DC scheme and Industry schemes; 500-999 employees; ‘Other’ sector)

- employers thought that the funding of a CDC scheme would be more predictable than a DB scheme because there would be greater control over the fund and employers could therefore budget more easily.

Employers operating DC schemes did not consider that there were any advantages for them of a CDC scheme, compared to a pure DC scheme.

5.1.2 Advantages of a CDC scheme for employees

Employers thought that the CDC scheme could be advantageous because such an approach was likely to provide a higher level of pension and provide a more predictable level of retirement income for employees than a pure DC scheme.

5.1.3 Disadvantages of a CDC scheme for employers

For employers committed to providing a DB scheme, the CDC scheme was thought to provide an inadequate retirement income for members, compared to a DB scheme.

From the point of view of employers with DC schemes, there were a number of disadvantages. These were:

- the funding costs were thought to be less certain than DC/GPP schemes. Employers were concerned that the description of the CDC scheme – ‘The employer would therefore be able to predict their contributions with some [our emphasis] certainty’ – implied less certainty compared to a DC scheme;

- the potential cost of setting up and administering such a scheme, primarily because, unlike DC schemes, there would be the additional administration and costs associated with revaluations;

- the perceived additional complexity of CDC schemes, compared to a DC scheme and therefore they would need to employ experts to administer the scheme;
employers thought that because of the additional complexity of a CDC scheme, employees would find it difficult to understand the benefits of such an approach;  
the need to find people willing to be trustees, an issue that employers thought was becoming increasingly more difficult because of the increasing regulatory burden and responsibilities now placed on pension scheme trustees; and  
the additional complexity of CDC schemes – such as revaluations – made it potentially difficult to communicate to employees, who it was felt, were already not very interested in pension schemes.

If the CDC scheme is implemented as set out in the consultation document then the costs should be comparable with a DC or GPP scheme. However, employers did not see it this way and thought that the process of revaluation introduced both an element of risk and additional costs, which for employers with DC or GPP arrangements, was considered to be a step backwards. They preferred their ‘no risk’ DC and GPP schemes.

5.1.4 Disadvantages of a CDC scheme for employees

Employers also thought that employees would consider that the CDC approach had three disadvantages, particularly if they were currently members of a DB scheme:  
a CDC scheme would provide a smaller pension than a DB scheme;  
pensions in payment from a CDC scheme could be increased by less than inflation; and  
a perception that pensions in payment could be reduced in order to ‘balance’ the schemes’ liabilities with its income, which it was thought would be unacceptable to employees.

5.1.5 Queries raised by employers about CDC schemes

Employers also raised queries about the CDC approach, about which they required additional information. These were:

how portable a CDC scheme would be:

‘I think collective funds are all very well but these days I think, particularly younger employees want something that is more portable and something that they feel they control and they can see grow…I think now that there is a likelihood that people will move employer several times during the course of their working life.’

(DB – closed; 1,000+ employees; Services)

employers wondered whether employees would have any control over how the funds would be invested;
• whether CDC pension schemes would be subject to legislative changes over time that would make it become more burdensome for employers, with the PPF levy being raised as an example; and

• the lack of a guaranteed revaluation and the ability to change pensionable age were felt to make the scheme vulnerable to legal challenges by employees.

5.2 Conditional Index (CI) scheme

The description of the key features of the CI scheme that were presented to the employer is shown below.

<table>
<thead>
<tr>
<th>Conditional Index (CI) scheme – key features</th>
</tr>
</thead>
<tbody>
<tr>
<td>• This occupational scheme would be a career average DB scheme. The pension earned would be calculated as percentage of earnings in each year of service and would be revalued each year to ensure that it maintains its value. Pensions in payment would also be increased each year in line with inflation. In this scheme, the level of revaluation would be equal to the level of indexation of pensions in payment to ensure fairness between active, deferred and retired members.</td>
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<td>• The key difference between this scheme and current career average schemes, is that increases in line with inflation are not guaranteed. Instead, they would be conditional on the funding level of the scheme – this means that if the scheme were fully funded or in surplus, full revaluation and indexation would be paid.</td>
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<td>• If the scheme were in deficit, it would be able to cut indexation and revaluation to reduce the deficit. If the scheme were to go back into surplus, indexation and revaluation would have to be reinstated.</td>
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<td>• Schemes would be obliged to target full indexation and revaluation (subject to any caps set out in the scheme rules) when funding the scheme. In years when indexation and revaluation are cut, the scheme’s liabilities would be reduced. This means that the pension scheme deficit would be less volatile than in a standard DB scheme.</td>
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<td>• The employer would have the right to increase normal pension age (NPA) in respect of the past service benefits of active and deferred members who were more than ten years short of NPA, subject to actuarial evidence of increased life expectancy.</td>
</tr>
<tr>
<td>• The scheme would be required to fully disclose the risks being shared between the employer and members.</td>
</tr>
</tbody>
</table>

As with the CDC scheme, employers could see advantages and disadvantages with the CI scheme.
5.2.1 Advantages of a CI scheme for employers

The advantages of the CI approach were seen as follows:

- seen as a major advantage over DB pension schemes, CI caps an employers’ liabilities and limits the funding they would have to provide:
  
  ‘The benefits I think are probably to the company. They are obviously looking to have some sort of a cap on the liabilities or risks to their liabilities.’

  (DB – closed and GPP; 1,000+ employees; ‘Other’ sector)

- any funding deficit is likely to be less volatile than with current DB schemes:
  
  ‘If there’s a deficit we wouldn’t have to pay – indexation is like a key thing.’

  (DB – open; 1,000+ employees; Services)

- conditional indexation spreads the risks associated with an ageing population:
  
  ‘It is very favourable to the employer. The employer would have the right to increase the pension age favourable to the employer. It means they’d have to pay out less if life expectancy increased. This would be favourable to an employer.’

  (DB – open; 250-499 employees; ‘Other’ sector)

- the approach reduces the ‘promotion rush’ just before retirement, whereby employees try to attain the maximum salary on which a DB pension would be based, thereby reducing the maximum pension for which a member is eligible; and

- indexation and revaluation are of great assistance to the employer when the fund is in deficit.

5.2.2 Advantages of a CI scheme for employees

If employees were members of a pension scheme that used conditional indexation, then, as indexation is applied universally across active and deferred members and pensions in payment, it is seen as a very fair approach.

Employers also thought that members of pure DC schemes might welcome the approach as it should provide a more predictable retirement benefit.

5.2.3 Disadvantages of a CI scheme for employers

The perceived disadvantages for employers were as follows:

- conditional indexation reintroduces employers with DC/GPP schemes to financial risk in terms of pension provision;

- the approach is likely to result in a larger financial burden for employers, compared with DC and GPP pension schemes;
• changing indexation levels could be seen by employees in a negative way as ‘cutting benefits’ which could then produce negative perceptions of the employer;

• the indexation elements of conditional indexation are very complicated to explain to employees, making it difficult to promote and explain the pension scheme to employees:

‘The indexation and the revaluations might be perfectly reasonable, they might be completely fair, but they sound complex. They don’t sound like concepts which your average person in the street would readily understand.’

(DB – partially open; 1,000+ employees; ‘Other’ sector)

• concerns about the administrative burden and associated costs of defined benefits, trust-based pension schemes and the need to be regulated; and

• a view that the approach was ‘too fluid’ in terms of the ability to change pension benefits based on conditional indexation and revaluation that meant that some employers said that they would feel unprofessional in administering such a scheme.

‘Well I think, I think, for me it’s all about making a professional judgement on what you’re trying to do for your employees and trying to manage what the employer has to do. As I say the most serious flaw, in my humble opinion on this, is that you’re almost changing the goalposts whenever you feel fit. And I would feel very unprofessional if I was doing that.’

(DB – open; 250-499 employees; ‘Other’ sector)

5.2.4 Disadvantages of a CI scheme for employees

From the perspective of employees, employers thought that conditional indexation had three disadvantages:

• compared to a DC/GPP scheme, the conditional indexation approach introduces greater uncertainty over pension provision because the employer can change many features of the scheme through indexation and revaluation. Employers operating DB schemes thought that the ability to cut indexation made the risks to the employee very high and made ‘pension prediction’ even more uncertain than it is now;

• the ability to change pension age makes retirement age a ‘moving target’; and

‘The ability to change pension age for past benefits and the fact that indexation is not guaranteed – from a personal perspective, this is not a company opinion, I do not agree with either of those provisions.’

(DB – closed; 1,000+ employees; Manufacturing)

• conditional indexation is thought to be particularly complicated for employees to understand, which could affect the take-up of pension provision.
5.2.5 Queries raised by employers about CI schemes

Employers also raised a number of queries about which they would wish to have more information:

• What is the basis for indexation?

• How frequent are the revaluations?

• How detailed would the re-valuations be and what would be the administrative costs of these to the employer?

• What happens to pensions in payment when there is a revaluation and the fund swings between surplus and deficit?

• How would a ‘career average’ approach work when people no longer have long-term careers with an employer – how portable is such a scheme and how does career average scheme move when one moves jobs?

Considering both approaches to pension risk sharing, employers made repeated comments about the perceived complexity. Three issues arise from this:

• Risk sharing approaches are seen as being clearer about the flexibilities inherent in the scheme because of the revaluations and indexations that may be made. With a DB scheme, an employee knows that they will receive a pension that is a defined proportion of their final salary. With a DC scheme, an employee receives a projection that may, or may not, be close to the pension they receive in retirement. Once the employee has become a member of the pension scheme there is a tendency to forget about any detail. However, as the employers in this study pointed out, the flexibilities built into pension sharing mean that any changes made to the pension scheme will be clearer and employees are much more likely to be aware of their pension provision.

• While an employee will know what their retirement pension will be from a DB scheme, this is much less likely than from a DC scheme. The employers in this study thought that employees generally accepted this. However, with the additional flexibilities of risk sharing, employers thought that employees would be more likely to want to know the effects of revaluation and indexation on their final pension. The additional flexibilities were thought to have one of two potentially opposing effects on employees, with some employees becoming more interested in pension issues, while others would become less interested because of the additional complexities.

• The additional complexity that risk sharing brought to pensions through indexation and revaluation meant that the employer would have more to explain to employees. With employees already finding pensions complicated, employers were concerned about the time and cost involved in providing explanations to employees, as well as the impact of descriptions of complex pension schemes on pension take-up.
Would employers consider any form of risk sharing?

This chapter explores employers’ views about risk sharing and explores whether they would consider any form of risk sharing for their pension schemes.

6.1 Employers with DB pension schemes

Employers with partially open or closed DB schemes could not see any reason to make a change. They maintained their DB schemes for very specific reasons and, in their view, the costs of the scheme were now reasonably predictable. A risk sharing approach would introduce additional unpredictability in their funding costs as well as an additional administrative burden and cost.

Employers with an open DB scheme wanted to maintain their existing approach, partly for paternalistic reasons and partly because they saw it as being appropriate to their industry sector and essential for maintaining parity with competitors. Closing their DB scheme could, in their view, directly affect their ability to attract and retain staff.

6.2 Employers with DC pension schemes

For those firms which currently operate a DC scheme, the perception was that a risk sharing model would be introducing an undesirable element of risk. Although the risk would not be as great as that seen under a DB scheme, it is still more than that present with their DC scheme.

It is seen as a step backwards in terms of financial liability, with little benefit perceived for them as employers. Where a firm currently has a DC plan, where essentially the risk has now been transferred to the employee – there is little incentive to move to a risk sharing approach:
'I mean most of the risk has now been moved, if you like, from the employer to the employee with the defined contribution scheme, and I guess it would be unusual, strange, to reverse that trend.'

(DC; 250-499 employees; Services)

Employers with DC schemes considered that they would generally be very unlikely to adopt a risk sharing approach to pension scheme provision, for three specific reasons:

• increased risk/liability;
• complex/administrative burden; and
• difficult to promote to employees.

6.2.1 Increased risk

The key barrier to the adoption of a risk sharing model is the increase in the perceived risk for the employer – pension risk sharing exposes the employer to more financial risk than in DC schemes. This was the main driver behind firms migrating from DB to DC schemes and as a result is the key disincentive to adopting a risk sharing approach:

‘Our reason for closing the DB scheme [was to reduce risk]…this would be a step backwards.’

(DC; 250-499 employees; Retail)

“We’re not going to close the door on new alternatives but I think we’d only be minded to change if it gave us discernable advantages above what we currently have, and at the moment moving away from total risk with the employee to sharing risk seems – from the employer’s point of view – a step that brings us no advantage.’

(DC; 250-499 employees; Services)

One employer also indicated that their US parent company would not allow any form of risk sharing approach and stipulated that pension schemes could only be GPP.

The exception was a very large ex-public sector employer that was changing its DC scheme to a CARE scheme and said this was due to trades union influence.

6.2.2 Complexity and administration

Risk sharing approaches to pension scheme provision are seen as inherently complex and therefore, it is perceived that administratively they would be complicated and expensive to manage.

Particularly where companies had moved from a DB to a DC scheme, there was reluctance to the idea of moving to another scheme unless the advantages outweighed the resources and effort required to implement the new scheme:
‘We really need a compelling advantage, because changing pension schemes is resource intensive, there’s communication exercises, there’s usually some kind of education process, there’s probably [a need for] more independent financial advice so people can make informed decisions, these are vast complex difficult changes to put through busy organisations.’

(DB – partially open; 1,000+ employees; Legal)

6.2.3 Promoting benefits of risk sharing

The perceived complexity of the concepts of a risk sharing approach makes them more complicated for the employer to understand and to communicate to potential members – it was difficult to understand how the two models of risk sharing presented during the interview might work in practice.

It was generally considered that pension risk sharing would need to be much simpler for employees to be confident about signing up to such schemes.

An overall view was that the adoption of pension risk sharing approaches is also unlikely to stop the declining membership of pension schemes. This is due to:

- a continuing lack of trust in pension schemes generally;
- the complexity of pension schemes, per se; and
- the complexity of the risk sharing approach.

That said, it was accepted that employees would almost certainly prefer to move to a risk sharing approach rather than to a DC scheme.

‘I guess they would probably be quite glad that we hadn’t taken it away altogether…I still think you’d get a lot of moaning but I think in their heart they would be glad that it wasn’t quite as drastic as going to the DC scheme.’

(Open DB; 250-499; Services)

6.3 Incentives for adopting pension risk sharing models

From the perspective of the employers in this study, those employers with DB schemes considered that they had made sufficient changes already (including closure or partial closure) so that the financial risks were now reasonably predictable and under control.

Employers with DC schemes considered that their current arrangements were working well and that there were no financial risks or uncertainties for the employer associated with them. While they recognised that DC pension schemes were not as attractive or as predictable, as DB schemes to the pension scheme members, their chief concern was the maintenance of good financial control and any move away from their current DC arrangements would undermine the control they currently had over the company’s financial affairs.
Employers had no plans or intentions to introduce a risk sharing approach to pension provision. Only if their DB schemes became untenable would they consider risk sharing. However, this was not on their financial horizon. Employers with DC schemes could see no reason at all to change their current approach.

Employers indicated that only some form of external pressure would make them change their current approach. Such pressures would most likely be either:

- regulation – Government compels employers to adopt a risk sharing approach to pension provision; or

- competitor actions – if their main competitors offered risk sharing pension provision and they could demonstrate that it was affecting their ability to recruit or retain staff.

Even then, however, the external pressure would have to be considerable to persuade some firms to adopt a risk sharing approach:

‘Those arguments would have to be strongly compelling to push us down [that route],…I think proposals to share risk, which in our case means to take the risk back from the employees, [to the] employer don’t really have a hope, it’s a bold statement but I would be staggered if people saw this bringing advantage.’

(DB – partially open; 1,000+ employees; Legal)
7 Conclusion

Throughout the research all the employers expressed a commitment to providing a pension scheme to their employees, either because they had a paternalistic approach to their employees or because pensions were part of a remuneration package that helped maintain a level playing field in terms of recruitment and retention. Whilst a minority of employers thought that employers should not be in the business of providing pensions and that employees should be given the money to spend how they thought best, they expressed a continued commitment to pension provision, primarily because it had become imbued in the corporate culture.

Employers with open DB schemes were generally very committed to them. Primarily residing in the educational and health sectors, these employers thought that the provision of DB schemes was an expectation for the sector. In some cases, the ethos of being ex-public sector pervaded, with a view that employers have a duty to look after the well-being of their employees in retirement.

Employers that continued to operate DB schemes that were either closed or partially open, considered that they had them under control and were working towards further reducing their exposure. They had also all set up DC/GPP schemes for new employees and new scheme members. In every case the reason for this was to move away from the financial risks associated with DB pension schemes. From their perspective, DC schemes were risk-free. The benefits were that their liabilities were predictable and controllable and that they no longer had to account for the deficits accrued from DB schemes on their balance sheet. Having experienced the effects of DB schemes on their corporate finances in the past (and in some cases were continuing to do so) these employers had no desire to return to a position in which they had potentially unpredictable costs associated with providing a pension scheme.

Employers with DC schemes expressed a high degree of satisfaction with their arrangements because the costs were predictable and meant they had no financial exposure.
Once the risk sharing approaches had been shown to employers, they were able to identify a range of advantages and disadvantages, from both the employer and employee perspective. Employers overall took a very balanced view of risk sharing, irrespective of the type of pension scheme they were currently providing. Employers with open DB schemes generally saw risk sharing as being beneficial to the employer but disadvantageous to the employee; employers with DC schemes recognised that risk sharing could be beneficial to the employee but introduced an element of risk for the employer.

Employers were generally sceptical about the risk sharing concept. This was partly because they were satisfied with their current pension provision, partly because there were concerns about the real costs of such schemes and partly the perceived difficulties in communicating the benefits to employees.

Employers with DC schemes had become accustomed to a ‘minimum risk’ approach to pension provision and as a consequence expressed no interest at all in taking on any risk in relation to their pension schemes.

During the risk sharing consultation period employers from both public and private sectors were invited to participate in smaller separate consultation workshops with DWP to discuss the issues around the risk sharing approach. The findings of this report were reinforced by the views that were expressed by the employers participating in the consultation workshops. Neither of the proposed risk sharing models held much appeal for any of the employers who took part in the consultation workshop. The current regulatory framework was already perceived to be overly complex and the concept of risk sharing was seen as adding to this complexity – with the consequence that it would be both difficult to implement and also to ‘sell’ to members. For those employers operating a DC scheme, the risk sharing approach was seen to offer no advantage to their current provision.
Appendix A
The range of pension schemes offered by the employers in the study

<table>
<thead>
<tr>
<th>Employer interviewed as:</th>
<th>DB closed (7)</th>
<th>DB partially open (8)</th>
<th>DB open (7)</th>
<th>DC/GPP (8)</th>
</tr>
</thead>
<tbody>
<tr>
<td>All have closed DB plus:</td>
<td>All have partially open DB plus:</td>
<td>6 x DB schemes (increasing employer contributions)</td>
<td>All have open DC plus:</td>
<td></td>
</tr>
<tr>
<td>2 x GPP</td>
<td>4 x GPP</td>
<td>1 x DB scheme converted to CARE scheme</td>
<td>5 x closed DB</td>
<td></td>
</tr>
<tr>
<td>(1 with 4 Industry</td>
<td>(including 1 with 2 Industry Stakeholder Schemes and Self Invested Personal Pensions)</td>
<td></td>
<td>1 x partially open DB</td>
<td></td>
</tr>
<tr>
<td>Stakeholder Schemes)</td>
<td>3 x DC</td>
<td>1 x DB scheme converted to CARE scheme</td>
<td>1 x transferred DB to DC scheme</td>
<td></td>
</tr>
<tr>
<td>2 x DC</td>
<td>(1 Career Averaging Scheme)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 x Stakeholder</td>
<td>1 x Stakeholder (Employer contribution)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(employer contribution)</td>
<td></td>
<td></td>
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</tbody>
</table>
Appendix B
Topic guide
Employer attitudes to risk sharing in pension schemes

Topic Guide

Aim: To understand employers’ attitudes to risk sharing in pension schemes

Objectives: To explore

- employer attitudes towards risk sharing in pension schemes;
- employer perceptions of the barriers to risk sharing in pension schemes today;
- employer reactions to different types of risk sharing; and
- the likelihood of employers making changes to current or future provision if new flexibilities were introduced.

1. Background

- About BMRB, independent research agency
- About the project
  - To explore their attitudes to risk sharing in pension schemes
  - Funded by the Department of Work and Pensions
  - This is one of a number of interviews being conducted with employers around the country
- Duration of interview (1 hour)
- Confidentiality
  - Anonymity
  - None of the quotations used are attributed to anyone by name or business name
  - Findings are reported in such a way that no respondents or businesses can be identified
  - Recording: recordings are only available to the BMRB research team

2. Background information about the employer and current pension provision

- Explore general characteristics of the employer
  - Nature of industry
  - Region
3. Pension scheme risk sharing

Thinking about pension schemes generally…

- What do they see as the risks in pension provision
  - Spontaneous and then probe
    - Investment risks
    - Longevity
    - Annuity rate fluctuations (for DC schemes)

- What do they think about the idea of sharing the risks of pension provision between the employer and the scheme member
  - Pros
  - Cons
  - Do they think employees would be willing to share risks

- What risks do they think it would be appropriate to share
  - Reasons

- Have they heard of ‘pension scheme risk sharing’ before
  - What do they know about it
  - Do they know about any pension scheme risk sharing approaches
    - Obtain description
    - Views about (pros and cons)
    - How did they hear about it

4. Changes in pension provision

- Changes in pension scheme
  - Over the past few years, such as moving from DB to DC or other arrangements
  - What are the new arrangements
  - Briefly explore reasons why
- **If they considered changes**, what different approaches did they consider when they changes their pension scheme
  - What influenced their choice
  - What were the barriers for each approach considered
    - Spontaneous, then probe
      - Issues to do with the approach; what
      - Employee reaction
      - Cost (setting up, etc.)
      - Time
      - Perceived complexity
      - Regulatory issues
      - Other reasons (explore in detail)
    - Is there anything they can think of that might have changed their mind about their approach

- Explore where a DB has been closed and members transferred to a new DC (or other) scheme
  - Do they consider this to be risk sharing

5. **Views about current pension provision**

   **For employers with DB schemes only**

   - Views about current scheme
     - What is the main driver for their views
       - Risks (what)
       - Costs

   - Intentions regarding current pension scheme
     - If DB scheme (and open to new members)
       - reasons
     - If DB scheme (and closed to new members but open to new contributions for existing members)
       - reasons
     - If DB scheme (and closed to new members and closed to new contributions from existing members – i.e. a closed DB scheme)
       - Reasons

- Would intentions differ if different types of risk sharing were available
6. Discussion of two pension scheme risk sharing approaches

Randomise ordering of two approaches

- **Present risk sharing approach 1 (Collective Defined Contribution Scheme)**

<table>
<thead>
<tr>
<th>Collective Defined Contribution Scheme – key features</th>
</tr>
</thead>
<tbody>
<tr>
<td>- In this occupational scheme, employer contributions would be a fixed percentage of pensionable pay. The employer would therefore be able to predict their contributions with some certainty.</td>
</tr>
<tr>
<td>- The pension earned would be calculated as percentage of earnings in each year of service and revalued each year to ensure that it maintains its value in real terms. Revaluation would not be guaranteed but would instead be subject to the scheme’s funding levels.</td>
</tr>
<tr>
<td>- Contributions to the scheme would be invested in a collective fund, rather than in individual accounts. This could save the employer money as it may be cheaper to run one large fund than many individual accounts. At retirement, an indexed linked annuity would be secured for the member from the collective fund.</td>
</tr>
<tr>
<td>- The trustees of the scheme would be able to control the size of the benefit liability to keep the scheme’s financing in balance by adjusting:</td>
</tr>
<tr>
<td>- Revaluations before pensions commence;</td>
</tr>
<tr>
<td>- Pensions increases when in payment; and</td>
</tr>
<tr>
<td>- The pension age at which standard benefits are paid.</td>
</tr>
</tbody>
</table>

- Awareness of risk sharing approach 1
  - From where

- Views about risk sharing approach 1
  - Pros
  - Cons

- Would they adopt such an approach
  - Under what circumstances
  - Perceived benefits to employer / employee

- If employer would not adopt such an approach
  - Reasons why not
    - Spontaneous, then probe
      - Issues to do with the risk sharing approach; what
      - Employee reaction
      - Cost (setting up, etc.)
      - Time
      - Perceived complexity
Conditional Indexation Scheme – key features

- This occupational scheme would be a career average defined benefit scheme. The pension earned would be calculated as percentage of earnings in each year of service and would be revalued each year to ensure that it maintains its value. Pensions in payment would also be increased each year in line with inflation. In this scheme the level of revaluation would be equal to the level of indexation of pensions in payment to ensure fairness between active, deferred and retired members.

- The key difference between this scheme and current career average schemes, is that increases in line with inflation are not guaranteed. Instead they would be conditional on the funding level of the scheme – this means that if the scheme were fully funded or in surplus, full revaluation and indexation would be paid.

- If the scheme were in deficit, it would be able to cut indexation and revaluation to reduce the deficit. If the scheme were to go back into surplus, indexation and revaluation would have to be reinstated.

- Schemes would be obliged to target full indexation and revaluation (subject to any caps set out in the scheme rules) when funding the scheme. In years when indexation and revaluation are cut, the scheme’s liabilities would be reduced. This means that the pension scheme deficit would be less volatile than in a standard defined benefit scheme.

- The employer would have the right to increase normal pension age (NPA) in respect of the past service benefits of active and deferred members who were more than 10 years short of NPA, subject to actuarial evidence of increased life expectancy.

- The scheme would be required to fully disclose the risks being shared between the employer and members.

- Awareness of risk sharing approach 2
  - From where
- Views about risk sharing approach 2
  - Pros
  - Cons
- Would they adopt such an approach
  - Under what circumstances
  - Perceived benefits to employer / employee
If employer would not adopt such an approach
  - Reasons why not
    - Spontaneous, then probe
      - Issues to do with the risk sharing approach; what
      - Employee reaction
      - Cost (setting up, etc.)
      - Time
      - Perceived complexity
      - Regulatory issues
      - Other reasons (explore in detail)

Explore aspects of each risk sharing approach that are preferred / problematic to employer
What would enhance the risk sharing approach

7. Adopting a risk sharing approach to pension provision

Would they consider any form of pension scheme risk sharing
  - Under what circumstances
  - Reasons for considering risk sharing
  - Reasons for not considering risk sharing
    - Explore spontaneous and then probe:
      - Issues to do with the risk sharing approach; what
      - Employee reaction
      - Cost (setting up, etc.)
      - Time
      - Perceived complexity
      - Regulatory issues
      - Other reasons (explore in detail)

What would a risk sharing scheme need to look like in order for them to consider adopting it
  - What flexibilities would be required
Realistically, what is the likelihood of employers adopting a risk sharing approach to pension provision
  - Reasons for their views

8. Finally….  

Considering their current pension scheme…
  - Summarise likely changes in the future
  - Likelihood of adopting a risk based approach
  - Flexibilities required in order to adopt a risk sharing approach

THANK AND CLOSE
Appendix C
Qualitative analysis using Matrix Mapping

Material collected through qualitative methods is invariably unstructured and unwieldy. Much of it is text-based, consisting of verbatim transcriptions of interviews and discussions. Moreover, the internal content of the material is usually detailed and in micro-form (for example, accounts of experiences and inarticulate explanations). The primary aim of any analytical method is to provide a means of exploring coherence and structure within a cumbersome data set whilst retaining a hold on the original accounts and observations from which it is derived.

Qualitative analysis is essentially about detection and exploration of the data, making sense of the data by looking for coherence and structure within the data. **Matrix Mapping** works from verbatim transcripts and involves a systematic process of sifting, summarising and sorting the material according to key issues and themes. The process begins with a familiarisation stage and includes a researcher’s review of the audio files and/or transcripts. Based on the coverage of the topic guide, the researchers’ experiences of conducting the fieldwork and their preliminary review of the data, a thematic framework is constructed. The analysis then proceeds by summarising and synthesising the data according to this thematic framework using a range of techniques such as cognitive mapping and data matrices. When all the data have been sifted according to the core themes, the analyst begins to map the data and identify features within the data: defining concepts, mapping the range and nature of phenomenon, creating typologies, finding associations and providing explanations.

The analyst reviews the summarised data; compares and contrasts the perceptions, accounts or experiences; searches for patterns or connections within the data and seeks explanations internally within the data set. Piecing together the overall picture is not simply aggregating patterns, it also involves a process of weighing up the salience and dynamics of issues and searching for structures within the data that have explanatory power, rather than simply seeking a multiplicity of evidence.