Employers' Choice of Pension Schemes

Report of a qualitative study

Bernard Casey
Employers' Choice of Pension Schemes: Report of a Qualitative Study

by

Bernard Casey
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The research reported on here was conducted by Bernard Casey and Hilary Metcalf. Assistance in the identification and screening of companies was given by Lydia Maher and Rose Fairbairn. Thanks are due to the large number of managers who gave the researchers their time in order to explain and discuss the policies of their companies and to the National Association of Pension Funds, a major insurance company and a pensions consultancy, whose staff discussed the pertinent issues and contributed to the identification of firms which might be of interest for inclusion in the study. Mike Brown and David Morgan gave many useful comments on the first draft but bear no responsibility for the final text.
Executive summary

Aims and method

This report is based on interviews with managers in 33 firms in late 1992/early 1993. The firms concerned were all from the private sector, and included large and small firms, old and new firms, firms from the manufacturing and from the service sectors and firms with and without pension schemes. Amongst firms with pensions, examples of those with defined benefit, defined contribution and group personal pensions were looked at. Respondents included, as appropriate, personnel managers, pensions managers, finance managers and general managers. Since the sample was not chosen to be representative, findings from the report cannot necessarily be generalised to the population of private sector firms.

The issues investigated were as follows:

- employers' motives for establishing and/or maintaining a pension scheme, and also their motives for not having a scheme or for closing down a scheme.
- employers' motives for choosing the type of scheme they do, and for changing or adding to, the type of scheme they have chosen.
- employers' use of any surpluses built up in the funds of defined benefit schemes.
- employers' responses to recent pensions legislation, court cases (especially the 'Barber judgement') and other 'shocks' (especially the Maxwell affair).

Motives for providing pensions

Three motives were identified for employers providing pensions:

- paternalism, or a feeling that they had an obligation to look after long-serving employees in their old age.
- assurance of position in the labour market, or a feeling that the offer of a pension was necessary to ensure that the best quality of person was attracted to work in the firm, or less frequently, to ensure that employees stayed with the firm.
- reward, or the feeling that employee motivation and productivity could be encouraged by the offer of a benefit in addition to a wage or salary.

The paternalist motive was more common in larger, long established firms, the reward motive was more common in smaller firms. Overall, awareness of the labour market contribution of pensions was growing, and firms were increasingly tailoring their provision to take account of this.

Firms without pension provision

Firms with no pension scheme were all small. Most considered the cost of provision too high and, because they were low paying, argued employees had no interest in pensions since they too could not afford them. A few felt employees should make their own decisions about retirement provision.

Type of scheme chosen

Three types of scheme were apparent amongst firms where provision was made:

- Defined benefit schemes predominated, and they were generally regarded as offering the best pension to employees. However, there was a growing recognition that changes in the age structure were increasing costs of provision, as were some elements of recent and expected legislation, and also that defined benefit schemes disadvantaged certain more mobile groups which firms wanted to be able to recruit.
- Defined contribution schemes overcame certain of the disadvantages becoming apparent in defined benefit schemes. A few firms had changed from a defined benefit to a defined contribution scheme, several had supplemented their defined benefit schemes with, or with elements of, a defined contribution scheme.

- Group personal pension schemes constituted a new form of provision that was particularly attractive to smaller firms. They had the advantages of defined contribution schemes whilst they did not involve the employer in scheme administration. Some firms had started providing pensions for the first time via the medium of a group scheme, and a few firms had changed from offering a defined benefit scheme to offering a group personal scheme.

It was clear that the provisions of the 1986 Social Security Act had had an impact on the way in which employers were able to offer pensions (particularly defined contribution and group personal pensions) and had made provision possible in some cases where it had previously been absent.

Pension fund surpluses

As well as using surpluses to add to the benefits schemes offered or to enhance the value of existing benefits, a few employers had taken advantage of them to:

- enhance the acceptability of a change from a defined benefit to a defined contribution scheme, by increasing the value of individual employees' accounts at the moment of transfer;
- pay for special early retirement schemes offering enhanced early pensions as part of redundancy programmes;
- establish a reserve to help pay possible future liabilities consequent on the 'Barber judgement' or the requirement to uprate pensions.

Responses to recent 'shocks'

Although different firms were vulnerable to different degrees to the various shocks, it was apparent that:

- most firms with defined benefit schemes did not find limited price indexing, as legislated for in the 1990 Social Security Act burdensome since they either were already pre-funding to meet it, or they had been uprating out of fund surpluses;
- most firms had not been substantially, or at all, affected by the capping of maximum pensionable pay in the 1989 Finance Act and none had taken compensatory action;
- many firms, influenced by the 'Barber judgement', had equalised pension ages in recent years, but few firms feared the judgement would be made retrospective;
- most employers regarded the 'Maxwell affair' as a one-off occurrence, although the majority of these had taken one or more steps to reassure employees;
- some employers were concerned that if the Goode Committee proposed too drastic remedies, they might have to review the pension provision they made;
- most employers in firms with pension schemes were of the impression that the 1986 Financial Services Act inhibited their ability to respond to employees' requests for advice on pensions.

With the exception of a few, rather remarkable cases, the so-called 'shocks' had not had a substantial impact upon employers' provision and practice.

Conclusions

Since the study was a qualitative one, its findings cannot be generalised to the whole of the private sector. Nevertheless, certain broad conclusions could be drawn. Six of these should be highlighted:

- Although in many cases it is not dramatic, there does appear to have been some change in the nature of pension provision in recent years;
- This change has been motivated by the need to take account of employee mobility, sexual equality and a fair treatment of those who have retired whilst at the same time, holding costs under control.
• The changes that are observable tend to involve a move towards defined contribution schemes but often as an add-on rather than a substitute.

• Even in the more radical cases of change, involving the move from defined benefit to group personal pension schemes, what occurred did not involve an abandonment of pension provision but rather a recasting of the way in which it was made.

• The existence of pension fund surpluses has assisted the ability of firms to adapt but most firms felt that surpluses were unlikely to persist through the rest of the decade.

• For a variety of reasons, there is a high degree of commitment to pension provision amongst firms with schemes, and this should be noted.

Lastly, in order to complete the picture of pension provision, employers’ motives and the extent of and reasons for recent change, the report recommended that a large scale, quantitative survey of employers be conducted.
1 Introduction

This report brings the findings of a study commissioned by the Department of Social Security in the autumn of 1992. The Department's interest in occupational pensions reflected a mix of longer and shorter term considerations, and these are addressed in the first part of the current chapter. The chapter also provides a brief introduction to existing statistical sources on pensions and summarises the picture they give. Lastly, it presents the details of the study's remit and outlines the methodology that was used in carrying out the research. Chapter 2 brings the findings of the investigation of employers' practices, motives and attitudes. Chapter 3 draws some brief conclusions.

1.1 Background considerations

The projected rise in the costs of state pensions in the longer term has led to an interest in the role of alternative or additional sources of provision for retirement. Personal pensions, as one such source of provision, were promoted by the 1986 Social Security Act, but of far greater current importance, and unlikely to be eclipsed by personal pensions, even in the longer term, are occupational pensions - the pensions from schemes run voluntarily by employers for their employees. Analysis of the Family Expenditure Survey shows that between 1970 and 1988 their share of retired households' incomes rose from 11 per cent to 23 per cent.

Occupational pensions are of interest not only as a source of income, now and in the future, but also as a cost to employers. The most recent Labour Costs Survey showed that in manufacturing industry employers' contributions to occupational pension schemes were, on average (and including those without pension schemes), the equivalent of just over 5 per cent of expenditure on wages and salaries. In the banking and insurance industries the proportion was as much as 11 per cent. Expenditure on pensions contributions was the equivalent of between a quarter and a third of non-wage labour costs, and, with the exception of that on compulsory national insurance contributions, was by far the largest single non-wage labour cost. Such expenditure, even if voluntary, is likely profoundly to affect the manner in which labour is utilised.

Occupational pensions are also of interest because they have become the subject of substantial legislative and judicial interest and action in the last few years. In a series of laws since the mid-1980s, the government has taken steps to improve the treatment of early leavers (the 1985 Social Security Act) and to ensure that pensions in payment would be enhanced sufficiently to compensate for at least a part of the rise in the consumer price index (the 1990 Social Security Act). It also permitted new forms of occupational pension (notably, in the 1986 Social Security Act) and at the same time gave employees the right to opt out of membership of occupational schemes altogether. The European Court of Justice (in the so-called 'Barber judgement' of 1990) ruled that, as deferred pay, occupational pensions should be available on the same terms to men and women, requiring many employers whose schemes provisions mirrored those of the

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1 See, for example, Dilnot and Johnson, 1992.
2 Data for 1970 are from Dawson and Evans, 1987 and for 1988 from Hansard (H of C), 23 July 91.
3 The data referred to in this paragraph comes from unpublished tabulations of the 1988 Labour Costs Survey made available by the Employment Department. Published tabulations (see James and Roberts, 1990) aggregate pensions, sickness funds and welfare payments into a single title voluntary social welfare. Of the 4.9 per cent addition to wage and salary costs in manufacturing brought about by expenditure on voluntary social welfare in 1988, 4.6 percentage points were attributable to expenditure on pensions.
4 See Hart, 1984, especially Chapter 5 which discusses the ambiguous implications of changes in the level of endogenous (i.e. voluntary) non-wage labour costs.
5 This required a minimum level of uprating of preserved pensions.
6 This provision still has to take effect.
state system, to reset their pension age. And in 1992, after revelations that the pension funds of certain of the Maxwell companies had been systematically plundered by the parent corporation had raised questions about the security of occupational retirement arrangements, the Secretary of State for Social Security established a thoroughgoing review of pension law (the Goode Committee). Not surprisingly, the increased complexity and uncertainty of the institutional environment spawned the appearance of a number of new specialist publications, particularly *Occupational Pensions* and *IDS Pensions Bulletin* which reported on particular developments and on individual employers' reactions to them.

### 1.2 Existing sources of information

Despite their importance, remarkably little is known about the nature and distribution of occupational pensions. The *General Household Survey* has been a standard source of data, including a question on pensions at irregular but not infrequent, intervals. The tabulations published in the annual reports show, for instance, that about half of wage and salary earners are members of an occupational pension scheme, that employees of smaller establishments are much less likely to be members than are employees of larger organisations, that women are less likely to be members than men and that part-time workers are less likely to be members than full-time workers. Every four years the Government Actuary's Department conducts a survey of pension funds, although the latest, relating to 1987 was published only in 1991. This gives details of fund finances and scheme provisions—for example, pension ages and the manner in which benefits are calculated. Lastly, the National Association of Pension Funds conducts an annual survey of its members and this presents an up-to-date source of information if one which is biased towards larger funds. It is from these latter two surveys that we know that the vast majority of employees covered by occupational pension schemes are in schemes which operate on a defined benefit, or salary related, basis rather than on a defined contribution, or money purchase, basis.

Lastly, the 1990 Workplace Industrial Relations Survey (WIRS, a survey of some 2,000 establishments across all sectors of the economy) contained for the first time questions on whether the establishment offered a pension to each of nine groups in its workforce. Earlier in 1993 PSI conducted a special analysis of this data using multivariate techniques to identify factors which influence whether pensions are provided to all employees, to white collar employees only, or to no employees at all. This exercise underlined the importance of size in the provision of pensions and also showed how establishments with a high proportion of part-time and temporary workers were less likely to provide pensions. Establishments where blue collar unions were recognised were no more likely to provide pensions than those where they were not, but establishments where white collar unions were recognised were New establishments were less likely to provide pensions than those which had been in existence some years.

### 1.3 Remit and method of study

In commissioning the research described in this paper, the Department of Social Security was concerned to investigate three issues:

- employers' motives for establishing and/or maintaining a pension scheme, and also their motives for not having a scheme or for closing down a scheme
- employers' motives for choosing the type of scheme they do, and for changing or adding to the type of scheme they have chosen.
- employers' responses to recent pensions legislation, court cases (especially the 'Barber judgement') and other 'shocks' (especially the 'Maxwell affair')

The approach to be employed was a qualitative one. Such an approach is well suited to the exploration of issues. It is not an approach which aims to provide an exact description of the population or to answer questions such as what proportion do this, have that etc.

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7 The questions were first asked in the 1971 survey and the most recently published data refer to 1990
8 See GAD 1991
9 See NAPF, 1993
10 In terms of schemes the picture is very different. According to GAD (1991) there probably exist some 50,000-100,000 private sector schemes in Britain but less than 25,000 with more than 13 members. These latter schemes cover some 95 per cent of private sector scheme members. Over 90 per cent of private sector scheme members are in defined benefit schemes.
11 See Casey (forthcoming)
That is the role of quantitative research (of surveys etc.) Qualitative research is usually undertaken through interviews with individuals who have some pivotal or influential position or who are particularly affected by some event. It involves a mixture of narrative and discussion of key issues.

The remit had specified many of these issues and it was important to ensure that contact was made with firms where these issues were apparent. Thus in looking at why firms set up pension schemes, it was felt best to talk to relatively new firms, since these were likely to have recently confronted the question of whether or not to establish a scheme. Long-established firms, by contrast, would be able to help answer the question of why firms maintained pension schemes. Firms which had clearly articulated views about the type of scheme in operation were likely to include firms which had recently made changes to their form of provision and therefore it was necessary to include a number of these. A further type of firm which was likely to be of interest was that which provided pensions for some employees but not for others. On top of this, it was clearly desirable to ensure coverage of a range of different industries of small firms as well as large firms, and to include examples of each of the main types of pension scheme, namely:

- **defined benefit schemes** - these relate retirement benefits to salary (usually final salary) the amount depending on length of membership of the scheme (often known as salary related or final salary schemes)
- **defined contribution schemes** - these determine benefits in retirement on the basis of the invested value of the contributions made over the time in which the employee has been a scheme member (also known as money purchase schemes)
- **group personal pension schemes** - these are a form of defined contribution scheme but where employees contribute to personal pensions under a plan (or one of a limited number of plans) designated by the employer and to which the employer contributes and overlapping the above three scheme types
- **contracted-in schemes** - schemes, the members of which continue to contribute to the state earnings related pension system (SERPS) as well as to the state basic pension system.
- **contracted-out schemes** - schemes which are on top of the state basic pension scheme and whose members will receive little or no SERPS pension. It being expected or guaranteed that the reduction in state benefit will be at least replaced by their occupational or personal benefit

Diagram 1 illustrates the main characteristics of the firms included in the study, broken down by size and nature of pension arrangement.

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<td>6</td>
<td>2 (both Cl)</td>
<td>1 (Cl)</td>
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<tr>
<td>Large</td>
<td>2</td>
<td>9 (2 Cl)</td>
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Schemes were all contracted out unless otherwise stated. Numbers in brackets give the number of schemes of each type which were contracted in (Cl).

Small = 100 or fewer employees; large = more than 100 employees

Note: five firms had two schemes each.

Of course, it was also important to include a number of firms which had no pension scheme at all.

In total 33 firms were studied, all from the private sector. Sixteen of these firms were in the production sector (manufacturing and construction) and the remainder in the service sector.
A short description of each firm is given in Appendix 1 whilst the manner in which they were identified is explained in Appendix 2. In addition to studying firms, discussions were held with a major pensions consultancy firm with 5,000 clients in Britain and with the National Association of Pension Funds.

Respondents in the selected firms varied in terms of their function. In some cases they were a firm’s pensions director, in some they were its personnel director. Quite often these were the same person. In some cases the interview partner was the company secretary, the finance director or the managing director. People with such titles were most often encountered in smaller firms. Where the initial contact was with someone who came primarily from the finance side of the firm, a request was made to speak simultaneously with someone from the personnel side, and vice versa. Smaller firms tended not to have a dedicated pensions or personnel manager; responsibility for these matters lay with the company secretary, the finance director or the managing director. In such cases, despite being responsible for pensions, the interview partner was often relatively uninformed about pensions issues.

A set of topic guides was constructed to give a broadly common structure to the interviews. These guides differed according to the firm’s age and whether or not it had a pension scheme, since in each case different histories, circumstances and concerns was likely to be relevant. The set of guides is reproduced in Appendix 3. Those firms which had schemes were asked to send, in advance of the interview, a copy of any booklet or brochure they issued to employees describing the scheme. This enabled the discussion to be steered in the most appropriate direction. Interviews lasted between an hour and two hours except those with certain small firms (four in number), which were conducted on the telephone and lasted about half an hour.12

12 These were firms without schemes where a relatively unsophisticated response could be expected.
2 Employers' choice of pension scheme

The Department of Social Security's initial brief had already set down a number of issues for the research to address. These were employers' motives for having a pension scheme, the type of pension scheme chosen, and their responses to recent legislative and judicial actions (referred to as 'shocks'). However, it became clear that a further issue had to be added: namely, whether firms with pension schemes had run up surpluses in recent years, and if so, how had these surpluses been used. This question was important in determining both the type of pension scheme to be found and the way in which the employer had been able to respond to certain 'shocks'. All of these issues are addressed in the current chapter which brings the main findings of the research carried out with employers.

Given the qualitative nature of the study, and the reasons for which the firms investigated were selected, the findings are presented in a relatively general fashion. As was made clear in the previous chapter (1.3), the sample is small and it was not selected to be representative. Accordingly, inferences about the general population of firms cannot be made from it. Similarly, although an attempt is made to indicate the frequency with which, for example, particular policies were pursued or views were expressed, by the use of terms such as 'few', 'several' and 'many', these should not be taken as representing other than broad quantities or proportions. References to extremes are similarly intended, albeit they are sometimes couched in terms such as 'only one', 'one or two', 'all' or 'nearly all'.

2.1 Why firms have pension schemes

On the basis of the research conducted, it was possible to distinguish three primary motives for pension provision, which will be discussed in turn.

Paternalism Some firms felt it was their obligation to make provision for their employees when they retired. They recognised that people, especially younger people, were not good at planning for retirement—individuals were myopic and preferred to enjoy their income now rather than make savings for the future—and they felt responsible for ensuring that the worst consequences of such a disposition are mitigated. Certain respondents (albeit speaking on their own behalf and not that of their firm) went so far as to argue that membership of a pension scheme should be made compulsory, and that all firms should be obligated to operate a scheme.

On some occasions, paternalism went hand in hand with rather selective schemes for which only a proportion of employees—what is frequently referred to as the 'core'—were eligible. In one firm, this core—effectively managerial staff—had represented as little as 10 per cent of the workforce. Clearly, the same sense of obligation to ensuring employee welfare did not apply to the remainder, however genuine it was with respect to the eligible group.

Labour market considerations For some firms pensions were a necessary part of the compensation packet—as more than one respondent put it—they are just like holidays. It was felt that, if a pension were not offered, it would not be possible to recruit staff of the right calibre. In general, the generosity of the pension scheme was considered less...

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13 For another, not dissimilar classification, although referring to provision of fringe benefits in general, see Mann 1999.
14 It could be argued that SERPS already represents a compulsory occupational pension scheme operating with a centralised administration. The frequent criticism of SERPS is that, as an occupational pension system, it is insufficiently generous to provide an adequate retirement income.
important than its presence (although, in fact there was not a substantial difference between the various defined benefit schemes observed). Firms recognising the labour market significance of pension schemes either had a scheme because all their competitors did or, and much less frequently had a scheme because their competitors did not and they wished to differentiate themselves.

Many firms recognised pensions' recruitment function was more important for white collar, especially technical, professional and managerial staff than for blue collar staff and a few took advantage of this and operated schemes only for the former group. In most cases either a more or less explicit sense of equity, the promotion of a single status culture, or a wish to avoid unnecessary aggravation, ensured that all were covered. However, a number, having recognised both that younger employees had little interest in pensions (and prefer a higher take-home pay) and that, because they tended to leave, such people's membership was costly to administer, had felt able to restrict their pension provision to employees in their 30s and above without feeling they lost their competitiveness as an employer.

The retention function of pensions was seen as much weaker than its recruitment function. Most employers saw pensions as likely to encourage only certain older, long service employees to stay.

**Reward** Some firms saw pensions as a means of giving recognition to employees and, by rewarding them, of enhancing their motivation and productivity. The employees these firms were seeking to reward were existing, rather than new employees (i.e. not those they were trying to recruit). Scheme membership was usually open only to those who had been with the employer for some time, for example, two, or sometimes more years.

Each of these reasons was, to a greater or lesser degree, recognised by most firms with a pension scheme. To some extent a shift in the relative importance of motives was occurring since, whilst it sometimes seemed as if some employers' paternalism was boundless, there were a number of paternalistic employers who had become aware that paternalism had its limits. They were prepared to meet their obligations, but only so long as the cost of doing so was not made intolerably high. Such employers usually made allusion to recent or expected changes in the regulations according to which schemes were or might be required to operate. Similarly, the takeover of paternalistic by non-paternalistic firms, or the replacement of older management cadres by a new generation with a different philosophy, led not to a discontinuation of pension provision but to its labour market and other benefits being stressed. On the other hand, the rejection of paternalism was in no way absolute. In discussing the future of fringe benefit provision in the context of so-called 'à la carte' schemes, allowing employees to mix benefits subject to a given overall cost, most employers currently providing pensions suggested they would be unwilling to contemplate permitting employees to give up this benefit entirely. This could be interpreted as their feeling a residual sense of obligation to ensure that employees were looked after in old age.

Despite that fact that individual employers could have a mix of motives for providing pensions, differences in the emphasis placed on these motives tended to be associated with different firm characteristics. Thus, firms stressing the paternalistic motive tended to be larger firms which were long established or were smaller, 'family-run' firms. Firms stressing the recruitment motive also tended to be larger firms or to be smaller, often newer, firms in the primary sector of the labour market. Firms stressing the reward motive were often smaller firms, and their provisions were often not very generous and were often rather selective.

Once firms had a scheme, the more sophisticated of them might have recognised it as having additional benefits. The most often cited one, but nevertheless cited by only a minority of firms, was the ability to use early retirement, backed with a pension from
the scheme to facilitate workforce reductions and rationalisations. Sometimes the costs of this were met by the pension scheme itself (out of surpluses) sometimes by the firm.

No provision

Some firms have no pensions at all. Some firms claimed that they could not afford the costs either of contributions and/or of administration. Some (sometimes the same) firms claimed that their employees either could not afford to save and/or had no interest in doing so. Some (again sometimes the same) firms claimed that it was the employee’s, not the employer’s responsibility to make arrangements for retirement provision. In this respect, one firm argued that the provision of pensions contravened the (construction) industry’s ethos that you get paid what you get paid and you can decide what you do with it. Most of the firms which, for any of the above reasons had no pension scheme were small, and most of these were relatively low paying. None of them felt that the absence of a pension had a negative impact on their ability to recruit or retain employees.

A few firms claimed that recent pensions legislation and judicial decisions had made pension provision, at least in its traditional defined benefit form, too costly. They had closed down their schemes and made alternative arrangements either for those subsequently recruited to the firm (whilst keeping the initial scheme for employees already in it) or for all employees (see 2.2 below). Again the firms concerned tended to be smaller or medium sized rather than larger.

2.2 Why firms have the kind of schemes they do

According to the statistics of the Government Actuary and the National Association of Pension Funds, the pattern of pension provision has changed only slightly over recent decades. Until a few years ago, existing schemes were seldom closed down, and scarcely less seldom were they subject to major change. In the pre-war period and before, most pension schemes were constructed around a defined contribution principle, usually with the object of allowing the employee, on retirement, to purchase an annuity. In some cases, this annuity was targeted to achieve a certain proportion of average or final earnings.

Defined benefit schemes

After the war, many of the existing defined contribution schemes changed over to being defined benefit schemes, and defined benefit was the form adopted by almost all the larger schemes which were established in the 1950s and 1960s. It was generally agreed that defined benefit schemes provided the best pension possible as far as employees are concerned, since the latter are not dependent for their retirement income on the vagaries of the stock market. Whilst this means that the full risk is borne by the employer, until recently defined benefit schemes were all most firms considered in the post-war period.

Defined contribution schemes

Prior to 1988, few larger firms operated defined contribution schemes, and they tended to have a rather high level of turnover. Defined contribution schemes were mainly to be found amongst smaller firms, for which a defined benefit scheme is generally considered too unpredictable (such firms are vulnerable to substantial shifts in the age structure of their workforce) and possibly too administratively costly (they tend to be less easy to transfer to the charge of an insurance company). In so far as they provided pensions at all, it was mainly smaller firms which operated defined contribution schemes.

15. The extent to which employers saw the provision of pensions as a way to ensure that retirement occurred at what they considered the optimum time was a question the research sought to answer. Much of the American discussion of the economic implications of occupational pension schemes centres on the way employers can use them to discourage employees to leave at the point when the value of output produced by the employee over the duration of the employment relationship is equal to the value of the remuneration paid plus the value of the pension. Earlier or later retirement can be induced by adjusting retirement ages and/or the rate at which early or late pensions are reduced or appreciated (see for example Lutzada and Mitchell 1992). In the firms studied for this research, this motive did not appear present. One reason might be that in Britain, unlike the USA, compulsory retirement on grounds of reaching pensionable age is still permissible. Nevertheless, the terms of occupational pension schemes in terms of the incentives they offer are worthy of closer investigation.

16. Thus, Pitch and Wood (1979) make no reference to defined contribution schemes in their discussion of scheme design and concentrate entirely on defined benefit schemes.

17. However, as one or two firms pointed out, there were benefits to be reaped if the stock market over-performed, since then employer contributions could be reduced or even suspended completely.
As of 1988 it became possible for firms to operate a defined contribution scheme whilst contracting out of SERPS. A number of (mainly larger) firms had taken the opportunity to switch to defined contribution arrangements, sometimes, but not always, at a lower cost to themselves and a number of new firms had initiated their pension schemes on this basis. They were motivated by the wish to control pension costs and reduce the risks they might face. Projected changes in the pensioner-contributor ratio, and legislative requirements on uprating, had produced a great uncertainty about commitments under a defined benefit scheme in which the employer paid the ‘balance of costs’. Up to a doubling of contributions was foreseen by some.

In addition, employees had become more mobile and a scheme which penalised early leavers by giving them less than the invested value of contributions made on their behalf, was seen as increasingly iniquitous and less effective as a recruitment aid. Some firms switched their provision for younger employees from a defined benefit to a defined contribution basis retaining the defined benefit scheme for the remainder. Others, instead of completely changing over, offered a money purchase underpinning to their existing defined benefit scheme. Some firms which had not previously provided any pension benefit at all for younger employees, restricting entry to their existing schemes to those aged over 30 or even over 35, instituted a new, defined contribution scheme to cater for the previously excluded group. The firms making such additions or changes to their schemes were all larger ones.

Firms with new defined contribution schemes cited their transparency to employees as a further advantage. The annual or six monthly, statement of account informed individual employees of their position. It was regarded as a useful reminder to employees of the benefits they derived from their employment and as preventing misunderstandings on leaving or transferring rights to another scheme.

(Group) personal pensions. After 1988 personal pensions became much more accessible. They were marketed as being particularly appropriate for mobile employees. Personal pensions were generally poorly received by those employers who already had a pension scheme, and most did nothing to encourage employees to avail themselves of them. Such firms saw their scheme as superior to any personal scheme in terms of the benefits it offered and, in addition, they were often sceptical of the claims made by purveyors of personal pensions. Equally, they saw making contributions to individual personal pensions as administratively very costly, since there might be a different scheme for each employee. Only where it was essential to ensure recruitment of a particular individual were exceptions made.

By contrast, firms which had previously had no pension scheme, or had had schemes which excluded certain groups of employees, responded differently to the introduction of personal pensions. Group schemes offered such firms a low-cost, low-risk solution. Their administration, unlike that of firm-based defined contribution (or defined benefit) schemes, is wholly in the hands of the insurance company, and superior terms can sometimes be obtained for bulk buying. Because membership is restricted to a single scheme (or, in some cases, to one of two or three designated schemes), contributions procedure under a group personal pension arrangement is relatively simple. A number of (mainly) smaller firms, faced with the high administrative costs and uncertainties of operating defined benefit schemes, had switched to group personal pensions.

18 This involved keeping a notional account for each employee and assessing its worth on their leaving on the assumption that a particular (not necessarily the actual) rate of contribution had been made and that a particular rate of return had been earned on the notional investment. The transfer value (or pension) awarded is the greater of the value of the notional account and the transfer value (or pension) conventionally calculated under a final salary scheme.

19 This was the policy of the employers investigated in this study. There are, of course, some employers who, in order to ensure their competitiveness on the labour market, have an explicit policy of contributing to the personal pensions of employees choosing not to participate in the company scheme. For examples, see Occupational Pensions No. 27 (August 1989).

20 Suggestions from the pensions industry are that a large proportion of smaller firms with defined benefit schemes are making such a transition. The extent of the transition will not be known until the results of the 1991 Government Actuary's Department survey become available.
The option to contract out of the state supplementary pension scheme was introduced in the 1959 National Insurance Act but until 1988 (under the 1986 Social Security Act) it was available only to defined benefit schemes. In 1978 when SERPS was introduced, contracting out was seen as the most attractive option by employers and the pensions industry. The contracted-out rebate was considered to be more than sufficient to purchase the required Guaranteed Minimum Pension (GMP)\(^{21}\) and cover the cost of administering the scheme, and thus it offered a subsidy to the employer towards the costs of firm specific pension benefits. In addition, a contracted-out scheme means that an employer can better control the level of the final pension employees received. This is not always the case when they were eligible for SERPS since benefits under the latter are not closely related to final salary.

A few firms with defined benefit schemes opted to be contracted in because this was more suitable given their relatively high staff turnover. For them, it was administratively simpler to operate a contracted-in scheme because this avoided their having to perform calculations of the GMP for leavers. A number of the firms which had recently established defined contribution schemes, or had recently switched from a defined benefit to a defined contribution scheme, had also elected to contract in on the grounds that this benefits older employees and that younger ones in any case, have the option to contract out - moves in that direction are easier than the reverse. There were some indications of disenchantment with the operation of contracted-out defined contribution schemes amongst those employers which had them, in that they were increasingly less certain that they were being adequately compensated for the administrative work entailed by scheme leavers. Some suggested they were considering contracting their schemes back in, leaving employees the option of contracting out through an Appropriate Personal Pension (APP).\(^{23}\)

The precise level of the contracted-out rebate has an impact upon the 'optimal' age at which it is advantageous for members of defined contribution pension schemes to contract back into SERPS. The reduction in the rebate which took effect in April 1993 lowered the optimal age in many cases by a number of years.\(^{24}\) One firm was intending, via its actuaries, to contact all affected employees notifying them of this. The remainder had not developed a response, and may well not have been intending to.

A few firms had contracted-out previously contracted-in schemes or set up contracted-out schemes where no scheme had existed before, in order that scheme members could take advantage of the two per cent incentive payment payable until 1993 by the Department of Social Security to those leaving SERPS.\(^{23}\) In two such cases, the firms expressed some concern as to what they should do after 1993 when the incentive was replaced with an 'age-related addition payable (at a lower rate of one per cent) with respect to employees aged over 30, but only if the contracted-out pension is a personal rather than an occupational one. Both firms felt they would have to inform employees that the occupational scheme had become less favourable, and that employees might therefore leave it. One firm also made contributions to employees' personal pensions and in this case quitting seemed a real possibility. The other did not, and employees changing over would have lost the employer's contribution and the life assurance cover which membership of the scheme brought with it. In the latter case the firm's fears might well have been exaggerated. These two cases apart, amongst firms which had recently

\(^{21}\) This is the part of the pension intended to replace the SERFS benefit. Unlike an occupational pension, the GMP makes an obligatory provision for any spouse or dependents and is subject to a degree of revaluation (up to 3 per cent per year) to take account of price increases.

\(^{22}\) In fact, current regulations permit administrative expenses and commissions to be reclaimed against Protected Rights and GMPs in such circumstances.

\(^{23}\) That is a personal pension into which only the rebated National Insurance contributions are paid. It is effectively the equivalent of the GMP.

\(^{24}\) The rebate has been reduced from 3.8 per cent (employer's contribution) to 3 per cent and 1.8 per cent respectively. Exactly at what age it is optimal to contract back into SERPS depends on the individual's circumstances and the assumptions made about the future rate of growth of earnings and rate of return on investments. Generally, people within 20 years of the state pension age will get a better return from SERPS than from a money purchase pension to which they made the same level of contribution.

\(^{25}\) The contracting out must be for the first time or the first time within the space of two years.
contracted-out or made it possible for their employees to contract out, there was no indication that the changing conditions for receipt of incentive payments would have any effect on the nature of pension provision.

**Employee contributions** The majority of schemes investigated operated on a contributory basis, in that employees as well as the employer paid into the scheme. Where this was not the case, it was often because the firm felt that pensions were something for which it ought to be responsible (the paternalist motive) or because competitive pressures (the practice of the rest of the industry, especially financial services) dictated a non-contributory scheme. It was also suggested that a non-contributory scheme was administratively simpler, since it did not require the calculation of each employee's contribution.

Some firms with a non-contributory scheme felt that not having to pay contributions made employees less committed or interested in the scheme, although others felt that employees recognised a non-contributory pension as superior to a contributory one. It was suggested that, since membership of occupational schemes is now voluntary, having a non-contributory scheme might have made persuading employees to join it easier. One firm operating a contracted-in pension chose to keep employee contributions at a very low level largely in order to attract as many people as possible into the scheme.

### 2.3 What firms have done with fund surpluses

Almost all firms with defined benefit schemes had accumulated surpluses over the course of the 1980s. A considerable number had taken, or still were taking, full or partial contributions holidays, and a few had also reduced or suspended employees' contributions. Surpluses had been reduced in a number of ways, including by the adding of new benefits (for example, for widows or dependent children), the improving of benefits (for example, death-in-service benefits or pensions in payment), the reducing of the retirement age/the introducing of a common retirement age, the paying for early retirements consequent on workforce reductions/rationalisations and the facilitating of the reform of the pension scheme (encouraging members to accept a defined contribution scheme based on a firm or a personal pension arrangement - instead of a defined benefit scheme) by enhancing the value of the account that was transferred in their name into the new scheme.

Few firms had clawed back the surplus to use it for purposes other than financing benefits and if they had at all the proportion of the surplus was small.

A few firms regarded current surpluses as forming a reserve which might help them meet possible liabilities consequent upon the 'Barber judgement' or the future requirement to uprate pensions in payment.

### 2.4 How firms have responded to recent 'shocks'

Since the mid-1980s there has been a flurry of activity in parliament, the courts and outside which have affected the terms under which pensions can be provided and the attitudes of companies and employees towards pension benefits. The changing parameters of, and increasing constraints upon pension provision can be thought of as a succession of shocks. The specific 'shocks' investigated in this research were the uprating requirement (contained in the 1990 Social Security Act), the capping of pensionable pay (contained in the 1989 Finance Act), the 'Barber judgement' with its implications for the equalisation of pension entitlements, the 'Maxwell affair' raising questions about pension fund administration and security, and the restrictions on the advisory function of those responsible for occupational pension scheme management imposed in the 1986 Financial Services Act.

**Uprating** Many firms did not find the proposed introduction of LPI (Limited Price Indexation or a matching of inflation up to five per cent) burdensome. Of those operating defined benefit schemes, some already made formal provision for indexation (although whether this was equal to, or even in excess of, the legal requirement varied).

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26 It should be noted that the government has postponed the date from which this is to take effect until there is greater certainty about the implications and thus the costs of the Barber judgement.
and pre-funded accordingly whilst others had been granting ad hoc increases, the (cumulative) magnitude of which was of a similar order. In the latter case which was the slightly more frequent it was the existence of surpluses which made uprating possible Some firms recognised that in the longer term uprating would produce real costs in the form of higher employer contributions — these were suggested by some employers to rise by up to two percentage points. In one or two cases the uncertainty caused by the uprating requirement was sufficient to encourage the firm to pull out of a defined benefit scheme.

**Capping** The capping of pensionable earnings (limiting the level of tax favoured contributions which can be made, and the level of benefits which can be earned) was seen at this stage as a future rather than a current problem. Many firms had not yet been affected by the cap and in these it had had an impact on only one or two employees. A number supposed they would make some special arrangements for high earners, either on a funded or an unfunded basis. A number had no firm plans as yet. Not all firms were hostile to capping, since those affected — people recruited into positions with salaries of at least £75,000 — could already be regarded as privileged, and in any case, there existed other instruments than the company pension scheme by which they could make further provision for their retirement.

**Barber** Almost all firms had equalised their retirement ages over the last few years some upwards some downwards. Where equalisation was upwards, women currently in employment were normally permitted to continue to retire at 60 without disadvantage. Equally men currently in employment were given the same right, with the cost being met out of scheme surplus. Surpluses also helped permit a definitive reduction of the male pension age to 60 in some firms. In some sectors (especially financial services), such a reduction was felt necessary to stay competitive. Firms with defined contribution schemes saw themselves as offering employees much more flexible retirement opportunities than firms with defined benefit schemes.

The Barber judgement provoked many although not all, of the equalisations of retirement age. Almost all firms regarded the extent to which its ruling would be made retrospective as limited (to May 1990) and had reacted accordingly. Costs had been small, in consequence. None had made provision for a more drastic backdating, although one was deterred an improvement of benefits pending clarification of its obligations, and the fear of a worst case outcome had contributed to another closing down its defined benefit scheme. However, it was also apparent that not all firms had understood the implications of the Barber judgement as extending beyond an equalisation of retirement ages to include a greater or lesser element of retrospectiveness.

Some firms with a retirement age below 65 were continuing to make supplementary payments to men until they reached the age of entitlement to a state pension, although (since "Barber") not all of them were sure of the legality of this, and some were not aware of its possible illegality.

**Maxwell** The 'Maxwell affair' was familiar to all firms. Most employers regarded it a one-off occurrence, the like of which would not be possible in their firm. On the other hand, as several recognised a determined enough person could perpetrate massive fraud, and it was uncertain if any law would be sufficient to restrain him or her.

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27 This does not mean such schemes were more generous. Early pensions under defined benefit schemes were sometimes enhanced while even when they were not the amount by which they were reduced could be less than a full actuarial reduction would demand.

28 The research was conducted before the Advocate General of the European Court of Justice had delivered his opinion (April 1993) in the so-called Coloroll case concluding against the retrospectivity of the Barber judgment.

29 A statement by DGIV of the European Commission in 1991 argued that such supplements were justifiable because they sought to compensate for the inequality of the state pension system. However, the matter still has to be decided by the European Court.

30 This is not to say that there neither have been nor are any other cases of misuse of pension funds as the submission of the Campaign for Pension Fund Democracy to the Goode Committee testifies. See _Labour Research_ (1993).
Some firms had subsequently taken steps to check their procedures, and sometimes even to tighten them. A number had issued reassuring statements, although others regarded this as potentially counter-productive. In most cases, in the immediate 'post-Maxwell period there had been an increase in enquiries from employees and their representatives about the scheme and its viability. Often the questions were poorly informed, but the affair did lead to a greater interest in pension matters amongst employees than before. Firms with defined contribution schemes regarded these as less vulnerable to plundering, and offering greater security to employees, who receive once or twice a year a statement of their account.

Although the point was not pursued at any great length, a number of employers did express some concern at the possible outcome of the Goode Committee's (on pension law reform) considerations. A number almost always with defined benefit schemes, were worried that the Committee's report might provoke legislation that would further restrict a pension fund's mode of operation, by setting it new administrative and reporting tasks, and by directly imposing extra costs on it. Were such legislation to be too onerous a few claimed they would have to review the viability of pension provision, at least in the form it took at present. One feared that an unsympathetic revision of trust law might inhibit their scheme's flexibility to deal appropriately with individual cases of hardship or other exceptional developments.

Advice The restriction, in the 1986 Financial Services Act, of the giving of other than general guidance about personal pensions to 'authorised' advisors was raised by almost all interview partners. Most had been, and felt they would continue to be, involved in individual employees' decision on whether to switch from their firm's scheme to a personal pension, and sometimes they had directly been approached for advice. In very many cases, interview partners felt that employees lacked the understanding of what pensions cost and what pensions delivered necessary to make an informed choice that they did not even know what questions to ask, and that 'authorised' financial advisors were not assisting them in this. However, in many cases interview partners were unclear about the degree to which they could give help to employees. Equally, in many cases they were unhappy at being, as they saw it, restricted from giving their employees the full benefit of their knowledge, particularly when they saw them opting for what they recognised as less satisfactory schemes.
This study of employers' choice of occupational pension schemes was intended to be exploratory. As was made clear earlier, the intention was not to provide a picture of the current state of occupational pension provision, but to explore a number of issues which were recognised as being pertinent by major actors in, and students of, the occupational pensions world. There is little doubt that the structure of occupational pension provision is undergoing change, but what the research does suggest is that the change might not be as widespread or as drastic as is sometimes implied. The media (especially the specialist reporting agencies) are dedicated to presenting the more spectacular developments (especially the wholesale shift to defined contribution schemes), and it is these which attract most political attention.

However, even if dramatic change has not come about, the transformation of the legal and economic climates, and the projections which are being made of demographic developments, have almost certainly encouraged employers to examine their pension policy - their motives for providing benefits and the way in which they provide them - more closely than for a very long time. In some of the firms studied, this has resulted in employers making adjustments to their provision. Often these adjustments were piecemeal - they involved a fine tuning not a radical restructuring - but their objective was to address such issues as employee mobility, sexual equality and a fair treatment of those who have retired whilst, at the same time, holding costs under control. Even in the more radical cases involving the move from defined benefit to group personal pension schemes, what occurred did not involve an abandonment of pension provision but rather a recasting of the way in which it was made.

There is no doubt that, in making changes, employers were assisted, or spurred on, by a particular piece of legislation - the 1986 Social Security Act. This act extended the opportunity to provide pensions on a money purchase basis and created new forms of pension which were attractive to employers who had previously felt unable to provide any retirement benefits.

In their ability to respond to changing circumstances, requirements and expectations, employers have often been assisted by the room to manoeuvre given by the surpluses many pension funds accumulated over the 1980s. The fact that these surpluses were there at a time when employers were facing new demands was coincidental. Given the widely held view that stock market returns in the 1990s will be lower than those of the 1980s, it may be that employers' ability to adapt to future demands will be more limited. This should be taken into account by those proposing further pensions legislation.

Despite some doubts about the possible consequences of the Goode Committee's recommendations (or rather what it was thought these recommendations might be), amongst employers providing pensions there appears to be a high degree of commitment to the continuance of this form of benefit - whatever the motive(s) for providing it had been or had become. Pension benefits were seen as important, even though their importance and role, for different types of employee and for different types of employer, was not always the same. In making, or in contemplating making adjustments to their pension schemes, employers were attempting to adapt them better to accommodate the changing circumstances of their firm and the changing characteristics of those who were working for them. Their opportunities to do this have, in the last few years, become considerably greater, and in general this must be deemed a positive development.
It is not possible, on the basis of qualitative research such as this, to say how far the last few years have seen an extension of occupationally-based (if not conventional occupational) pensions to firms and/or employees who previously did not provide or enjoy them, or a shift from defined benefit to defined contribution based pensions amongst firms and employees who did previously provide or enjoy them. It was merely possible to observe that such changes and extensions occurred in particular cases. However, it has to be recognised that the creation of the group personal pension has put at firms’ disposal a wholly new, and for many of them an infinitely more suitable, instrument through which benefits can be provided. In the words of one employer, it constituted ‘a democratisation of pensions’, and its impact requires further investigation.

So, too, does the spread of hybrid pension provision — the simultaneous provision, albeit to separate groups within the firm, of defined contribution and defined benefit pensions or the attachment of a money purchase underpin to an otherwise conventional defined benefit scheme.

This leads to a final point. Qualitative research has the merit of identifying issues and the way in which they should be addressed. However, to complete the picture quantitative work might well be desirable. The research reported upon here has illustrated what should be the concerns of such a quantitative study of employers’ choice of pension scheme, it has also given some insight into where in an organisation such an inquiry should be directed. Although the 1991 Government Actuary’s survey will present the first representative picture of post-1988 (i.e. post the coming into force of the provisions of the 1986 Social Security Act) developments, the level of aggregation at which the data are collected, and the narrowness of its scope, will prevent it from providing an illustration of more than the broadest trends. A more detailed survey addressing employers’ motives for pension provision, for adopting or changing to particular forms of provision, and permitting employers’ assessments of recent changes and recent ‘shocks’ would offer valuable additional insights into what social and employment policy experts have now generally agreed to be an important, but neglected, field of concern.

31 The latest NAPF survey shows only one per cent of private sector member schemes having switched from defined benefit to defined contribution over the past year.
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Description of case study firms

Abbreviations used are explained at the end of this appendix.

Company 1 A large food processing company. The majority of employees are semi-skilled, many are women working part-time, and a substantial number are casual (seasonal) workers. The company can be described as paternalist. It has operated a pension scheme for many years and has gradually extended it to cover all permanent employees. Now about 60 per cent of all (permanent and casual) employees are members. The current scheme is a COFS to which in 1989 an MPU was added. In addition, a COMP was set up, so that the company scheme could compete better with PPs. As yet the COMP has relatively few members.

Company 2 A large security services firm. Staff turnover amongst the lower grades is very high. The company operates a CIMP, which is restricted to employees aged over 25 and with at least one year’s service. The pension scheme is seen as aiding recruitment. About 15 per cent of employees are members.

Company 3 A small computer services firm. The labour force is relatively stable, but the company recently closed its COFS scheme and replaced it with a GPP scheme which was seen as more appropriate, because it was administratively easier and less costly.

Company 4 A small typesetting and graphics firm. It has no pension scheme. It finds pension provision too costly and does not feel it needs to offer such a benefit to attract or retain staff.

Company 5 A large, foreign-owned firm providing computer facilities management. The company has grown rapidly in recent years. Most employees are quite young, and amongst these turnover is quite high. The pension scheme for employees over the age of 30 is a COFS. For the others it is a COMP. Pension provision is seen as promoting recruitment objectives and to a lesser extent retention objectives.

Company 6 A small company engaged in property management. The labour force is fairly stable. Pension provision is restricted to senior executives and above, and is subject to their having been with the company at least two years. The scheme is a non-contributory CIFs. Employer contributions are very high. The scheme’s principal function is to help retain staff.

Company 7 A small company supplying parts and equipment for motor vehicles. A pension scheme was introduced 14 years ago largely to improve recruitment. The original scheme was a COFS, but this has recently been replaced with a GPP. The cost of meeting uprating requirements and the wish to give employees a transferable benefit, motivated the changeover. Part of the surplus accrued by the COFS scheme was used to enhance transfer values for existing employees.

Company 8 A small company fitting draft-proofing, insulation and security devices in houses and businesses. Employees are mainly in their twenties and thirties. A pension scheme was introduced only recently in order to enhance employment terms. Given employees’ age and their relatively high turnover rates, a GPP was deemed most appropriate. Monthly paid employees are mostly in the scheme, but few weekly paid workers are.
**Company 9** A large foreign-owned software house. The company has been growing and has relatively low staff turnover. Employees are mainly young. The company decided to introduce a pension because it felt it had some obligation to provide for its employees' old age. It opted for a GPP because it did not want to set up a special unit to administer pensions, preferring to keep its personnel function as small as possible. Only about one third of employees are members of the pension scheme.

**Company 10** A large food-processing company with a retailing division. Most employees are relatively unskilled. Those in the production division are both full and part-time, those in the retail division are mainly part-time and are very young. Turnover is quite high. The company operates a CIFS scheme which is open to all employees aged over 21 with at least two years' service. About a quarter of those eligible, but almost all professional and managerial staff are members. A COMP was introduced without the eligibility barriers in 1988. It permitted those in the main scheme to contract out of SERPS and gave new pension opportunities to younger employees. About a third of those eligible have entered the COMP scheme.

**Company 11** A small precision engineering company originating from a management buy-out. The labour force is skilled to highly qualified. The organisation from which the company emanated had a money purchase pension scheme, and it was decided to continue along the same path. A CIMP was established (with individuals having the option to contract out with minimum contribution PPs). Only white collar staff are eligible: the company cannot afford to include other categories. The principle purpose of the pension is to make the company a more competitive recruiter.

**Company 12** A large financial services and consultancy company. The majority of staff are highly qualified and quite young, and amongst these there is a high level of labour turnover. Only a minority stay beyond the age of 35. In the past, pensions were restricted to the minority of administrative staff and what is more, only to those who had reached the age of 35. The pension scheme for these was a CIFS. At the end of the 1980s, the company recognised the need to make terms and conditions more competitive to ensure it could continue to recruit the best available graduates and this led it to introduce a COMP. The COMP operates on a minimum contribution basis for staff under 30 (although these can make AVCs) but after this the company pays double any contribution the employee makes.

**Company 13** A large insurance company which was growing in size until about two years ago. Its labour force is predominantly female and relatively young. Staff turnover is quite high. The company operates a CIFS which is non-contributory. Contracting-in was seen as less risky than contracting-out (the standards of the GMP could be changed) and also more suitable when a considerable proportion of employees left after a short while. Not requiring an employee contribution was seen as an expression of the company's commitment to providing for its employees' retirement. Pensions also serve to facilitate recruitment, but only with respect to more senior posts. A COMP is available for those who want to opt out of SERPS. For branch managers with highly fluctuating earnings, the company operates a CIMP. Those who opt out of the company scheme into a PP are entitled to a company contribution. This provision is to attract certain mobile high flyers and affects fewer people as yet.

**Company 14** A large foreign-owned company making health-care products. Most staff are production workers and the proportion of these who are female is increasing. Average length of service is quite high, but lower amongst women than men. Women have only been covered by the pension scheme since 1976 (following the 1975 Sex Discrimination Act). The scheme is a CIFS, this being chosen to accommodate the higher turnover amongst women, and employee contributions were set low to encourage membership. Membership is only about 33 per cent, but has risen somewhat since the company started to sell it more vigorously once competition from PPs arose. The company can be described as paternalist and feels pension provision to be an important responsibility of an employer. Pensions are also seen to help recruitment.
Company 15  The subsidiary of a foreign owned bank. The firm was established in Britain some five years ago, and the workforce is relatively young and relatively highly qualified. A non-contributory pension is seen as a necessary part of the remuneration package to ensure competitiveness in the labour market. Initially the scheme was a COFS but this was not deemed cost effective since many young employees were leaving despite it. In 1989 it was replaced by a CIMP with the option to contract out into an APP.

Company 16  A large foreign owned electrical engineering company, recently established. Employees are semi-skilled, mainly male and relatively young. Pensions offered in order to enhance the company's ability to recruit, particularly to recruit white collar employees. The firm's single-status culture required that the pension scheme also covered blue collar workers. Pensions also help to promote loyalty amongst employees. A COMP was chosen since this approximated to what existed in the foreign parent. It also offered greater security of contributions levels to the company.

Company 17  A medium-sized large chemical manufacturing company which has declined in size over recent years, partly as a result of sell-off. The labour force is mainly rather skilled and labour turnover is low. A COFS scheme had operated for all employees until 1990. The company's benefit policy can be described as primarily paternalistic. In 1990 the COFS was closed to new entrants because the ratio of contributors to (deferred) pensioners had become very unfavourable, because the possible outcome of Barber would place intolerable strains on the fund and because the prospect of LPI threaten to increase costs yet more. Together these could bankrupt the company. A GPP was set up, since without a pension scheme at all it was felt recruitment might be more difficult.

Company 18  A large catering and leisure company. Over 60 per cent of employees work part-time, and labour turnover is very high. The company has had a pension scheme for managerial staff for many years, largely for paternalistic reasons, but those eligible constituted a minority of the total labour force. The paternalistic motive has become less strong recently and employees are no longer actively encouraged to join the scheme. In 1988 eligibility for the COFS scheme was restricted to employees over 30 and working full-time. A new COMP, for which minimum contributions could be made was introduced for the remainder - employees with high turnover. The COMP also permitted the company to refuse to contribute to PPs. In practice, few of those eligible have participated in the COMP and it might be closed.

Company 19  A small publishing company. Employees are mainly highly qualified and young. Publishing has quite high labour turnover, although some staff have been with the company many years. The company feels it is important to pay properly and to let employees decide how to spend their money. Employees can better determine their pension needs than the company.

Company 20  A small company, manufacturing plastic products for the building trade, which was set up some six years ago. Most employees are male, in their 20s and 30s and most stay with the company. A GPP was established in 1988, but two years later contributions for hourly paid employees were given up in return for a wage increase and reduction in hours of work. Now not all hourly paid employees participate. The pension scheme is seen to serve a recruitment function.

Company 21  A small construction management company set up three years ago. The company has no pension scheme reflecting a construction industry culture that is the responsibility of the employer to pay and that it lies with the employee to decide how to spend the money. Furthermore, a pension is regarded as costly and bringing no advantages.

Company 22  A small printing company established some seven years ago. The labour force is mainly skilled, and labour turnover is low. In 1988 a GPP was set up. Only employees with a minimum of two years' service are eligible to enter. The amount contributed by the company depends on the employee's status. The pension scheme is a form of reward for valued employees.
Company 23 A small engineering and installation company established as a management buy-out from a larger company six years ago. The skill level of the workforce is quite high, and most employees have quite long service. The firm initially set up a COFS similar to that of the company from which it had come. It felt obligated to continue to make provision for long service employees’ retirement. However, the COFS scheme has proved very expensive, with administration costs very high despite low labour turnover. The company has recently decided that a GPP is more appropriate for an organisation of its size. The plan chosen yields benefits equivalent to the COFS, subject to assumptions about service.

Company 24 A small packaging company started some eight years ago. Employees are mainly young, low-skilled and rather low paid. The company has no pension scheme, regarding it as too burdensome administratively. Employees are not interested in pensions (they did not pursue opportunities to open PPs following an insurance company’s presentation), since they could not afford any reduction in pay.

Company 25 A large engineering company taken over in the last decade by two multinationals in rapid succession. The labour force is a mix of skilled and semi-skilled workers, relatively old and having quite long service. When it was independent, the company was viewed as rather paternalist and had a pension scheme (a COFS) for all employees. When the second takeover occurred, in 1985, the new parent discontinued pension provision for hourly paid workers, bringing it in line with its other subsidiaries. Recently, the management of subsidiaries convinced the parent company that employee retention could be improved by offering some form of pension, and this led to a GPP being set up for hourly paid workers. About half of those eligible have taken the opportunity, most on a contracted-in basis.

Company 26 A large company in the food processing industry, recently taken over by another food processing company. Most employees are relatively low-skilled and many are part-time. Labour turnover is low. The independent company was always paternalist and had a pension scheme (a COFS) for all employees. When the company was contracted out of SERPS to take advantage of the incentive payment available. After the takeover the CIMP/COMP was replaced by a COFS to bring pension provision in line with the new parent’s pension policy. The new COFS has an MPU. The initial company saw the changeover as desirable, since rapid rises in nominal wages had put a strain on the original targeted MP scheme, and the scheme was becoming administratively complex because it did not accord with the practice upon which much of pension law is increasingly predicted.

Company 27 A large, foreign-owned engineering company set up in Britain some 10 years ago. Employees are relatively young and turnover is low. The company has a single status policy. A pension scheme was established at the beginning. Pensions were seen as an essential part of the employment package, necessary to ensure the best people were recruited. Little consideration was given to the type of pension scheme, since there were few options available, so the company chose a COFS (MP was still in its infancy and PPs did not really exist).

Company 28 A small merchant bank. Most employees have professional skill. The age of the workforce has been falling in recent years and turnover rates have been rising. The company regards itself as paternalist and has offered a pension for many years. This was a COFS scheme. In 1989 the COFS scheme was replaced by a CIMP which was seen as more appropriate given the smaller workforce and the higher mobility of staff. Younger employees can opt out of SERPS into a PP. A surplus from the COFS was used to enhance transfer values into the new scheme and improve the acceptability of the changeover.

Company 29 A large furniture manufacturing company. Most employees are semi-skilled and relatively old. Labour turnover is quite low. Pensions are seen as important in
attracting employees and helping to retain them. However, this applies only to monthly paid staff, for whom there is a COFS. No pension provision is made for hourly paid employees. This appears to cause no ill feeling.

**Company 30** A medium-sized solicitors firm. Partners are self-employed, but no pension provision is made for the remainder of the staff. They are encouraged to make their own arrangements and the firm feels it pays well enough to enable them to do so. Administrative staff are, however, mainly relatively young married women who feel themselves covered by whatever scheme their husband is a member of. The firm has started considering more active provision, recognising it might have a responsibility to help staff think long term.

**Company 31** A large foreign-owned pharmaceutical company. The workforce, which contains a high proportion of graduates, has grown significantly over the last two years. Pension provision is seen as necessary in assuring the firm’s ability to recruit and retain the best staff, although the British subsidiary is more prone to a paternalist attitude than its foreign parent. The firm had a COFS to which an MPU was added in 1988 in order to maintain its attractiveness relative to PPs amongst younger, more mobile staff. More recently, and in the face of the parent’s concern at possible future pension cost, given demographic changes and domestic concern about the costs of LPI, the ‘Barber judgement’, the firm converted to a COMP. A considerable share of an accrued fund surplus was used to enhance the accounts of individual employees when they were transferred into the new scheme. The firm, which had been enjoying a contributions holiday, was henceforth required to make contributions for pensions.

**Company 32** The subsidiary of a foreign-owned bank. The firm was established in Britain some five years ago, and the workforce is relatively young, relatively highly qualified. A non-contributory pension was seen as a necessary part of the remuneration package to ensure competitiveness in the labour market. Initially, the scheme was a COFS. It’s part of a wider scheme covering other banks to enhance its portability. Recently a COMP scheme was introduced for staff under 35 and existing employees were transferred into it. A COMP was regarded as more attractive to this more mobile group. At 35 staff switch into the COFS scheme.

**Company 33** A large precision engineering company with a publishing division. On the manufacturing side, the workforce is highly skilled, relatively old and of long service. On the publishing side, the workforce is mainly highly qualified, relatively young and of short service. Pension schemes for blue and white collar workers were amalgamated some five years ago, since a joint scheme was seen as less socially divisive. The company is paternalist, but it sees pensions as also improving its ability to recruit into certain white collar grades. The scheme is a COFS, and membership is about 60 per cent. Many of the younger staff of the publishing division do not join.

**Abbreviations used**
- APP  appropriate personal pension
- AVC  additional voluntary contributions
- CIFS  contracted-in final salary scheme
- CIMP  contracted-in money purchase scheme
- COFS  contracted-out final salary scheme
- COMP  contracted-out money purchase scheme
- GMP  guaranteed minimum pension
- GPP  group personal pension scheme
- LPI  limited price indexation
- MP  money purchase
- MPU  money purchase underpin
- PP  personal pension
- SERPS  state earnings related pension scheme
Appendix 2: Identification of case study firms

Previous research (see footnote 11 above) indicated that almost all large firms had a pension scheme. Most large firms' pension schemes are listed in the annual publication *Pension Funds and their Advisers* (published by AP Information Services, London). This gives a contact name and an indication of scheme size (number of members) but does not state, in most cases, what type of scheme is involved. Thus, reference was made to various pensions journals, especially *IDS Pensions Bulletin* and *Occupational Pensions*, which report issues and developments by reference to specific schemes. From these two journals it was possible to select a number of schemes which had made significant changes and some schemes which were of an unusual nature. In addition, a number of potentially interesting examples were suggested by one of the major insurance companies following an introduction from the National Association of Pension Funds. Using *Pension Funds and their Advisers*, it was also possible to identify a number of schemes which covered only white-collar workers.

Newer, smaller firms were identified in the first instance by obtaining a listing from the Dun and Bradstreet *company information file*. The entries in this database were screened by telephone to establish size (where this data was missing) and whether or not the firm had a pension scheme. If possible, an attempt was also made to establish what sort of scheme this was.

Firms were contacted in the first instance by letter. This was followed up by a telephone call. The contact name used was that given in *Pension Funds and their Advisers* or, for firms not listed there, the name of 'the person responsible for pensions' obtained through telephone screening.
Appendix 3  Guide for interviews with firms

The following were intended to guide and structure interviews. They are not questionnaires to be administered. Separate guides were constructed for

- employers with no scheme,
- new employers with a scheme,
- employers with long-standing schemes

Certain information was obtained in advance. In particular, all companies with a pension scheme were asked to send an explanatory booklet such as was distributed to new staff.

1. Employers with no scheme

age of company, size of company sector

type of jobs, type of employee (age and qualifications), type of labour market in which recruiting (degree of tightness), turnover

remuneration levels (absolute and relative to competitors)

type of fringe benefits available (for all or for some)
  - extra-statutory sick pay
  - private health insurance
  - subsidised meals
  - car/car finance
  - extra-statutory maternity benefit
  - life assurance
  - discounts on goods or services
  - subsidised accommodation

at what point (in the company’s history) was each benefit introduced

what proportion of the labour force has a personal pension (contracted out), and does this vary between occupational groups or age groups?

does the employer contribute to PPs, and if so/not why (not)?

has the company ever considered a pension scheme if so at what stage in its history (more than once)? what prompted this?

representations from employees

need to be competitive in the labour market

attract employees

hold down turnover

need to boost morale

was any particular type of scheme considered

- defined benefits
- defined contribution
- group personal
- contributory/non-contributory
- contracted-in/out
was advice taken on what would be involved what it would cost from consultants from fellow employers from unions/employees

what made the company turn down the idea costs complexity not convinced of efficacy other benefits seemed superior (which?) employees not convinced/wanted something else more (what?) satisfied with PP

any change of heart likely and if so under what conditions/circumstances

2. New employers with scheme

age of company size of company, sector type of pension scheme all or some eligible type of jobs type of employee (age and qualifications) type of labour market in which recruiting (degree of tightness) turnover

remuneration levels (absolute and relative to competitors) type of fringe benefits available (for all or for some) extra-statutory sick pay private health insurance subsidised meals car/car finance extra-statutory maternity benefit life assurance discounts on goods or services subsidised accommodation

at what point (in the company's history) was each benefit introduced

when was the pension scheme introduced, when the company had reached a certain size reached a certain level of profitability the reasons below predominated

are any groups excluded, which and why

why was the scheme introduced representations from employees responsibility to provide for employees in old age need to be competitive in the labour market attract employees hold down turnover need to boost morale/productivity

was only the current type of scheme considered, or were alternatives (which? DB, DC, GPP)

why was chosen scheme adopted why were alternatives rejected costs complexity did not seem as effective in meeting objectives set by firm employees' preferences consultants' advice fellow employers' advice
is the scheme contracted out or contracted in, and why

costs
complexity (admin, given high turnover)
unable to meet legal requirements (which?)

has scheme met objectives so far, and where has it disappointed

have unexpected difficulties/costs arisen
are any of these the consequence of legislation (which?)
or of changes in company and its performance

what has scheme cost as a proportion of payroll

are any eligible employees in a personal pension instead, how many, which ones and why
does the employer contribute to these and if so/not why (not)
what is otherwise it's attitude to employees in PPs

do any employees participate in AVC/FSAVC schemes

are there plans to extend the scheme to any excluded groups
which ones are they

3. Employers with long-standing schemes

age of company, size of company, sector, type of pension scheme, all or some eligible

type of jobs, type of employee (age and qualifications), type of labour market in which
recruiting (degree of tightness), turnover

remuneration levels (absolute and relative to competitors)

type of fringe benefits available (for all or for some)
extra-statutory sick pay
private health insurance
subsidised meals
car/car finance
extra-statutory maternity benefit
life assurance
discounts on goods or services
subsidised accommodation

at what point (in the company's history) was each benefit introduced

when was the pension scheme introduced, when was it extended to all employees (if it is)

how is scheme administered
who are trustees, who nominates them
is fund management internal/delegated to external investment managers/insurance
companies
is administration internal/delegated to external organisation (e.g. actuaries)

is the scheme contracted out or contracted in, and why

costs
complexity (administrative, given high turnover)
unable to meet legal requirements (which?)
if Cl, has the situation ever been reviewed

do any employees participate in AVC/FSAVC schemes

what proportion of wage costs do pension contributions make up
what proportion of these schemes assets are invested in the company

is the scheme currently taking a contributions holiday or has it taken one in the last 10 years – for employees for the company

has the company made any special payments into the scheme in the past 10 years, if so to meet deficits to pay for special early retirement packages

has the scheme used any surplus to improve benefits on whose initiative which benefits and how

has the company withdrawn any proportion of a surplus in recent years, and if so was there any reaction/consequences

what functions is the scheme seen as fulfilling ensuring employees are provided for in old age ensures company is competitive in the labour market attracts employees holds down turnover boosts morale/productivity enables workforce reductions/restructurings to be effected smoothly provides a reserve of funds which company can draw upon

has consideration been given to changing the scheme in any way OR why was a change made in the scheme (including in both cases, closing scheme for membership and establishing new scheme) including previously excluded groups changing benefit formula (more/less generous) changing pension age (up/down) moving from DB to DC or GPP or vice versa (or adding one of these) or adding money purchase underpin ceasing to offer a pension at all (to new recruits, to all employees)

what motivated change or consideration of change substantial proportion of members left to take a private pension, or most new employees opted for a private pension, scheme became too costly because of legislative requirements (which ones?) uprating requirements equal treatment requirements company performing badly employees expressed preference for change takeovers/mergers and/or need to rationalise overcomplex scheme(s)

what inhibited changes being made union/employee opposition trustee opposition reasons actuaries’ advice too costly would damage position on labour market (recruitment turnover)

how did company respond to introduction of PPs passively actively, selling the scheme (detail how) and what has been the take up of PPs how have PP members been treated does the employer contribute to PPs and if so/not why (not)
how did the company respond to uprating etc of 1985 and 1990 Social Security Acts
1985 required injection of new funds could be met out of current funds
will require future increase in contribution rates (company/employee)

1990 will require injection of new funds should be met out of current funds will require increase in contribution rates (company/employee)

how did the company respond to the capping of earnings to be counted as pensionable in approved schemes in the 1989 Finance Act established a top-up scheme (funded/unfunded) did any top-up/top hat schemes already exist

how did the company respond to equalisation of pension ages, and how did it pay for it equalised up down, went for the middle still has to do something met out of current funds/cost neutral will require adjustment of contributions (company/employee)

how does the company understand Barber' what are the obligations it is seen as imposing are these seen as imposing extra costs on the scheme how will these costs be met (injecting extra funds/using up accumulated surplus)

has the company made any response to 'Maxwell case subjected itself to special audit reviewed its treatment of surplus/how it might use a surplus reviewed its position on self-investment or stock lending/acted on this reviewed its trustee structure, increasing 'independent' or 'employee/pensioner representation issued special statements to staff