

## Journal Column Company Pensions

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The next two years are going to be a busy time for independent financial and business advisors, such as myself, thanks to laws introduced under Labour.

The former Government brought in legislation to say that, as of 2012, employers will have to enrol all staff into a company pension scheme, a programme known as “auto-enrolment”, unless the employee opts out.

Contributions from both parties will make up the scheme, with the aim being to ease the pension crisis and help workers in their retirement years. But is it the long-term boost we are told it will be? Actuaries say not, and I am inclined to agree.

The problem with these company pensions lies in the shorter term, the years of payments into the schemes. Companies are told they do not have to pay any more than 1 per cent of a worker’s salary into the scheme, rising to 3 per cent in 2017. At present, we are told the average

employer contribution to pensions is 6.1 per cent.

It would be stretching that generosity to the limit to expect companies to keep up such a level of payment when faced with compulsory pensions to the entire workforce, especially for those who employ large numbers.

Let us not forget that this additional cost burden is landing on employers when we are still facing the hardship of the financial crisis and we are still seeing companies struggling and, indeed, going to the wall: just look at Connaught.

Research by the Association of Consulting Actuaries published last month suggested that larger employers feel the new law would force them to reduce the contribution to existing pensions to cover not only the cost of new enrolments, but the ongoing payments for an entire workforce until retirement.

The fear is that companies will strip those contributions down to the minimum payment, leaving employees having to increase their own payments, made from their wages, to protect the value of their pensions.

In the ACA study, 41 per cent of the 210 biggest employers said they expected to cut payments.

Legislation which was aimed at helping people prepare for retirement could, therefore, see many people retire with pension pots significantly lower than they had planned for, some say to the tune of tens of thousands of pounds.

Likewise, those individuals who had seen the legislation as a lifeline need to look carefully at their plans. With minimum employer contributions expected, a private pension plan is still something that should be on the list of priorities for anybody hoping for security in retirement.

Company pensions, along with a state pension, will give a foundation for such stability. Unfortunately for your average employee, it is still wise to see his or her job as being to build upon those foundations.

This auto-enrolment initiative isn't a bad idea, but it certainly isn't marking the end of the pension crisis.

Despite there being a consultation underway, looking at whether to delay or water down the plans, the Coalition has vowed to go ahead with the Labour proposal, so it is going to happen.

We await possible changes, but the message remains: private pensions must not be forgotten, because the financial hardship under the current plans will either hit the pocket now, or it will impact upon retirement.

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