Pensions Investment Review: Unlocking the UK pensions market for growth

Submission to the Department for Work and Pensions and HM Treasury

Chartered Institute of Personnel and Development (CIPD)
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About the CIPD

The CIPD is the professional body for HR and people development. The not-for-profit organisation champions better work and working lives and has been setting the benchmark for excellence in people and organisation development for more than 100 years.

It has 160,000 members across all sectors and sizes of organisation and provides thought leadership through independent research on the world of work, and offers professional training and accreditation for those working in HR and learning and development.

Public policy at the CIPD draws on our extensive research and thought leadership, practical advice and guidance, along with the experience and expertise of our diverse membership, to inform and shape debate, government policy and legislation for the benefit of employees and employers. It also seeks to promote and improve best practice in people management and development and to represent the interests of our members.

General remarks

In terms of ensuring the recruitment and retention of key skills and performance, enhancing the employee experience, and improving financial wellbeing, pensions can play an important part in an employer's reward strategy. However, the CIPD recognise that some employers regard the pension scheme as simply a cost of doing business and something to be minimised.

Therefore, people professionals have a role to play in making the case for investing in the pension plan. Not simply in terms of contributions, but also in terms of the time and effort in ensuring that the plan represents value for money, both for the organisation and for its people.

However, the CIPD's Spring 2023 Labour Market Outlook found that among private sector organisations using a defined contribution (DC) pension scheme to automatically enrol workers, just 30% checked every one to three years if it was delivering value for money for employees. Similarly, only 28% also reviewed whether it was delivering value for money for the organisation over this period. Among those public and voluntary sector employers that use a DC plan, these percentages were even lower.

By contrast, around a third of HR professionals were simply unaware if their workplace had ever reviewed whether the DC plan was delivering value for money, either from its members' (30%) or its employers' (33%) perspectives.

In addition, around one in 10 respondents (12%) said their firm had not reviewed the workplace DC scheme at all and had no plans to do so. Within the private sector, this response varies by size, with small- and medium-sized companies being far more likely to say this (21%) than large companies (5%).

However, while ensuring value for money is important, so too are other aspects of the pension environment. If we want more people to save more for their retirement, then we need to look at ways of gradually increasing the minimum total amounts paid into workplace DC arrangements. However, given the current business environment, we recognise that this might not be feasible.

Instead, as we highlighted in our letter to the pension minister on 30th July 2024, the CIPD believes that if all firms published pension contribution information in their job adverts, this could help:

- inform applicants which employers offer the better pension;
- raise the profile of workplace pensions among job hunters, so organisations are more likely to see a return on what they are spending on their pensions;
- encourage those workplaces that are contributing less than the 'going rate' to increase their contributions to ensure they remain competitive in the jobs market; and
- reduce the size of the gender pension gap.

The CIPD's Autumn 2024 Labour Market Outlook found that 60% of HR professionals agreed that requiring employers to include pension contribution rates in their job adverts would boost the amount of money going in. This was especially true among those working for employers in the Construction (79%), Manufacturing (73%), and Finance (68%) sectors. However, those based in Arts, entertainment and recreation (48%); Retail (51%); and Hotels, catering and restaurants (56%) were less sure.

Until the economy is improving, the government should consider requiring all employers to include pension contribution rates in job adverts as a way of helping to drive up contributions. It is better than doing nothing.

Our response

The CIPD is surveying HR professionals for their employers' views on this consultation and would be happy to share the findings with you should this be of interest. The CIPD will respond to questions 29 and 30 of the consultation, which focus on the potential role of employers.

Question 29. Do you think establishing a named executive with responsibility for retirement outcomes of staff could shift the focus on cost and improve the quality of employer decision making on pensions?

In large employers, such as publicly quoted companies, the board might be large enough for either an executive director or a non-executive director (NED) to take on this

responsibility. For example, to comply with the UK Corporate Governance Code, many firms have made an NED to be responsible for workforce engagement.

However, not all employers have a board. The CIPD believes that this requirement would work only if it applied to large employers. Also, we believe that the nominated executive would need information and guidance on what the responsibility for ensuring good value retirement outcomes looks like, and how best to fulfil it.

In addition, who will check whether an executive has been appointed to this role and what they have done to actively ensure good value outcomes? The CIPD believes one way of testing this was happening is by requiring employers to disclose this in their annual report.

We recognise the concern raised in this consultation that unless these duties are given to an executive, they would probably be given to a junior member of the HR team. However, one way of mitigating this danger is requiring the HR team member to be a Chartered Fellow of the CIPD. The CIPD would also be able to support members with information and guidance on how best to meet this duty.

Question 30. What evidence is there that placing a duty on employers to consider value would result in better member outcomes? If such a duty was introduced, what forms should it take? Should it apply to a certain size of employer only? How can we ensure it is easier for employers to make value for money comparisons?

An alternative option suggested by the consultation document is that employers should be legally required to review their choice of workplace pension scheme. This could take the form of a duty on all employers to conduct a self-assessment of their pension arrangements against a specified criteria, initially on a one-off basis and every 5 years thereafter.

Another proposal is only those workplaces with 250 or more workers would be made to carry out such an assessment. This is because such organisations are more likely to have the resources and skills to conduct such an evaluation while a large proportion of the workforce would still benefit from such as a review.

The CIPD is not convinced that placing a legal duty on all employers would be useful. For example, would the regulator have the resources to be able to check that all workplaces

have undertaken such a review? How would it check compliance? Would small- and medium-sized firms have the skills and resources to be able to undertake this kind of evaluation? If not, who would provide the support they needed?

Instead, the CIPD prefers that such a legal duty would only apply to large employers. Ideally, we would like a pilot to see how such a requirement would work in practice, so lessons could be learned before the law changed.

We would also recommend a phased approach so that employers do not undertake a review at the same time and cause a capacity crunch for benefit advisers. Instead, we recommend a timetable similar to the pension automatic enrolment, starting with the biggest large organisations first and then finishing in five-years' time with the smallest large workplaces.

Once an assessment has been conducted, then it should be signed off on behalf of the organisation by a responsible individual, such as a suitably qualified HR or reward director or manager. If the individual was a CIPD member, we could help provide the support they needed to make it easier for them to oversee value-for-money comparisons.

It is not easy to assess in advance whether establishing a named executive with responsibility for retirement outcomes or placing a duty on employers to consider value would result in better member outcomes. Though a pilot of both approaches might provide valuable insights. If the government wants to test these approaches through pilots, then the CIPD would be willing to support the recruitment of employers to take part.