
'Pullback from pure DC' predicted in UK

By Kerry Pechter Tue, Apr 10, 2012

Current DC arrangements in the UK are so inadequate, one official said, that employers will eventually find their workforce dominated by workers in their 70s or 80s who can't retire, and whom employers can't force to retire.

"Unsustainable" was how the president of the UK Society of Pension Consultants (SPC) recently described the trend for replacing defined benefit (DB) occupational pensions schemes with defined contribution (DC) arrangements, according to an IPE.com report. Kevin LeGrand warned that "a growing elderly workforce unable to retire will exert a financial cost on employers" and will eventually trigger a "pullback" from pure DC provision.

The remarks came after a number of DB plans in the U.K., including the Shell Contributory Pension Fund and the UK Department for Work and Pensions, were closed to new members. Around six million UK pensioners benefit from some form of DB plan, but only 10% of firms have final salary plans that are still open, according to the DWP.

LeGrand, whose organization represents a broad range of services providers to the pensions industry, including consultants, accountancy firms, law firms, insurers, administrators, independent trustees and asset managers, said: "Over the years, corporate sponsors have gradually come to see pensions purely as a liability."

Today, pension benefits are not considered an important incentive for potential employees -partly because of the recession, but also because of a misperception among the younger workforce whose parents are enjoying retirements funded by DB provision and other sources of significant accumulated wealth.

Roger Mattingly, head of client relationship management at JLT Benefit Solutions and a member of the SPC board, said: "They may even have built a pot worth tens of thousands of pounds that looks very healthy to them because they aren't thinking about annuitization and conversion rates, and don't understand it.

"The risk of future pensioner poverty isn't obvious to younger employees at the moment. But once that generation starts to approach retirement and realizes its income will be substantially smaller than the previous generation's, that will probably start to exert an influence on pension provision for the next generation."

Current DC arrangements are so inadequate, LeGrand argued, that employers would find their workforce increasingly dominated by septuagenarian and even octogenarian employees who are simply unable to retire, and whom employers cannot force to retire or take redundancy.

"Those employees probably don't really want still to be there in the office or on the shop floor, either," he said. "Who is going to be the object of their resentment? The employer - because they didn't ensure everyone had a proper pension arrangement."

Employers looking for ways to move these people on will essentially have to “bribe” them, said LeGrand.

Having spent years contributing to a DC pension scheme, they will still have to find more money to provide their employees with the real means to retire - effectively bowing to the inevitability of a DB, or at least a ‘cash-balance’, provision.

“Ultimately, we will see a pullback from pure DC,” LeGrand said. “Some forward-thinking employers are realizing this already, but we will see more and more coming to the same conclusion.”

UK supermarket chain Morrisons recently launched a cash-balance pension fund, which it said would mark a “significant” improvement over its existing DC scheme. LeGrand suggested that this could be a model for future provision. Under the plan, the company and employees would contribute to an investment fund managed by the company and aimed at producing an adequate pension for participants.