
Benefits of employer pensions

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US/UK Dialogue on Pensions
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Overview

- Introduction
- UK employer pension provision
- Why offer pensions: economic benefits
- Why offer pensions: what employers say

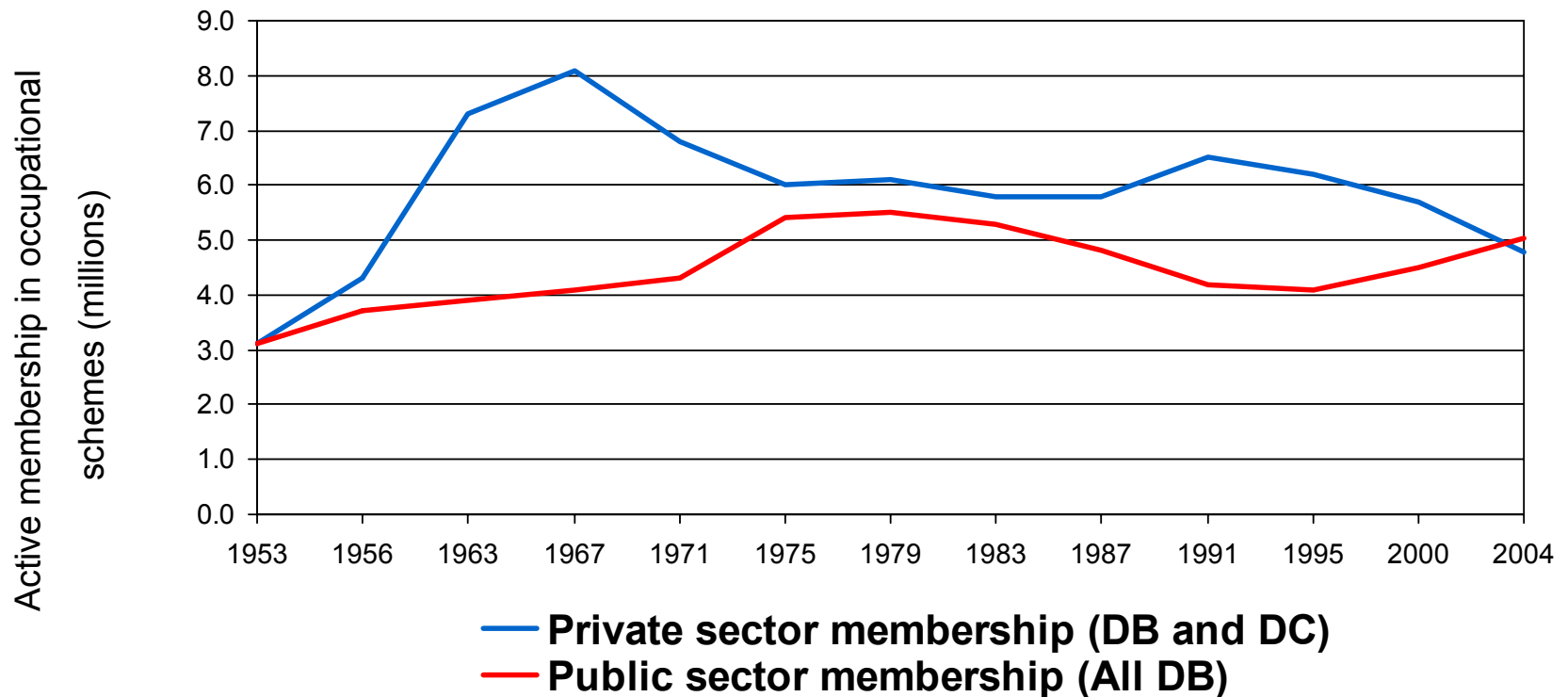
UK employer pension provision

A caveat

- UK private pensions market is complex;
- Presents difficulties for data collection & presentation

UK employer pension provision

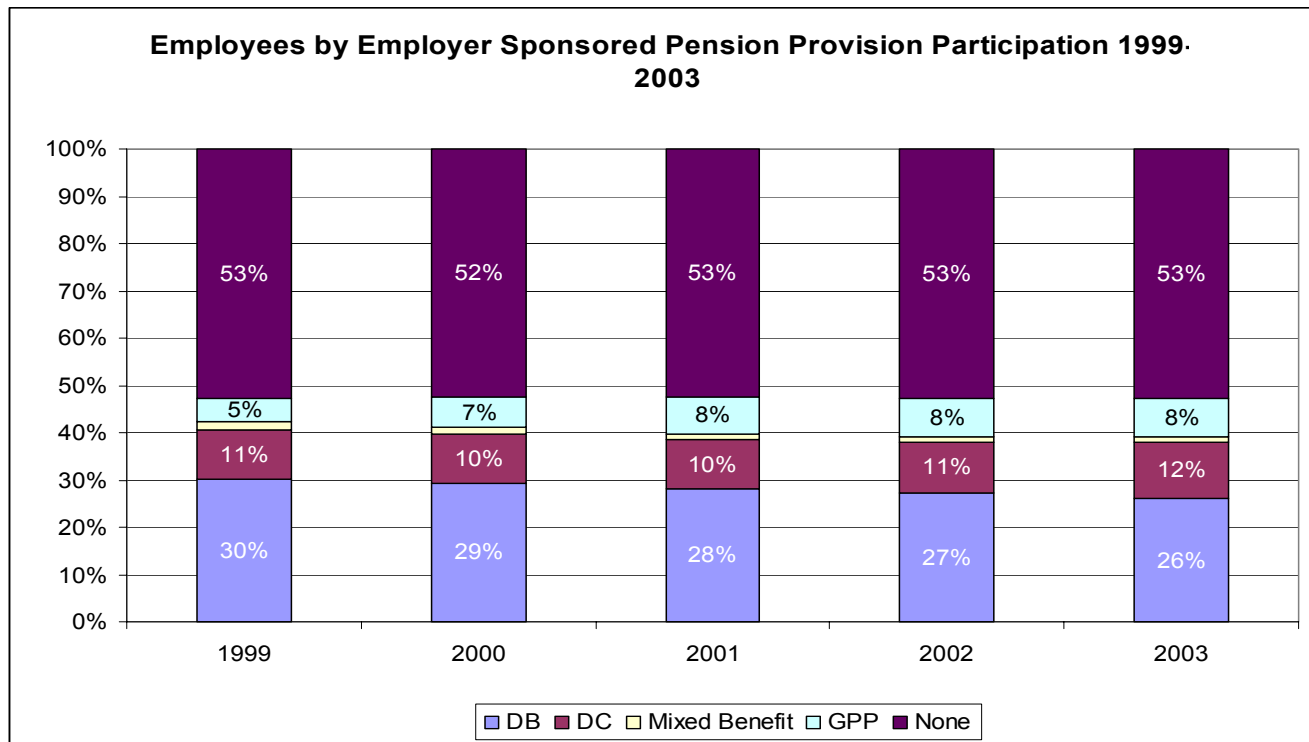
Long term trend in occupational pensions is downward...



Source: Government's Actuary Department (GAD)

UK employer pension provision

...but overall membership stable in recent years

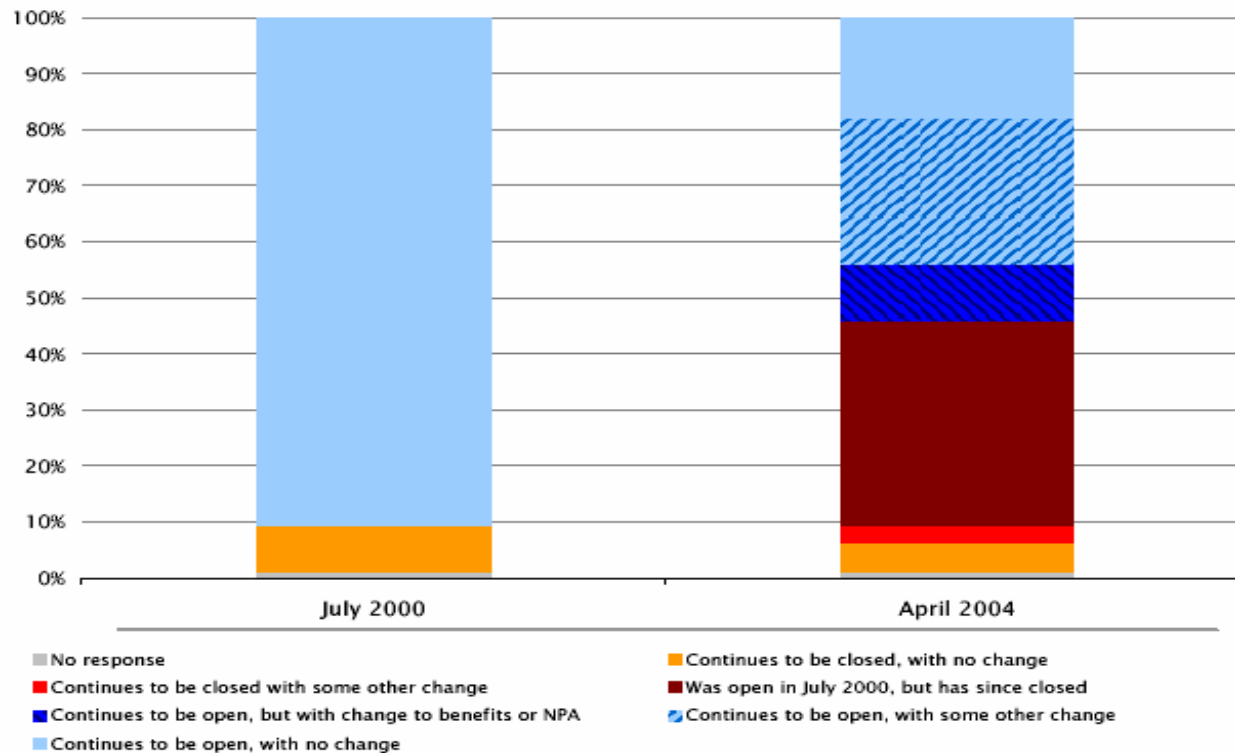


Source: Office for National Statistics

UK employer pension provision

DB/DC shift will continue in the future...

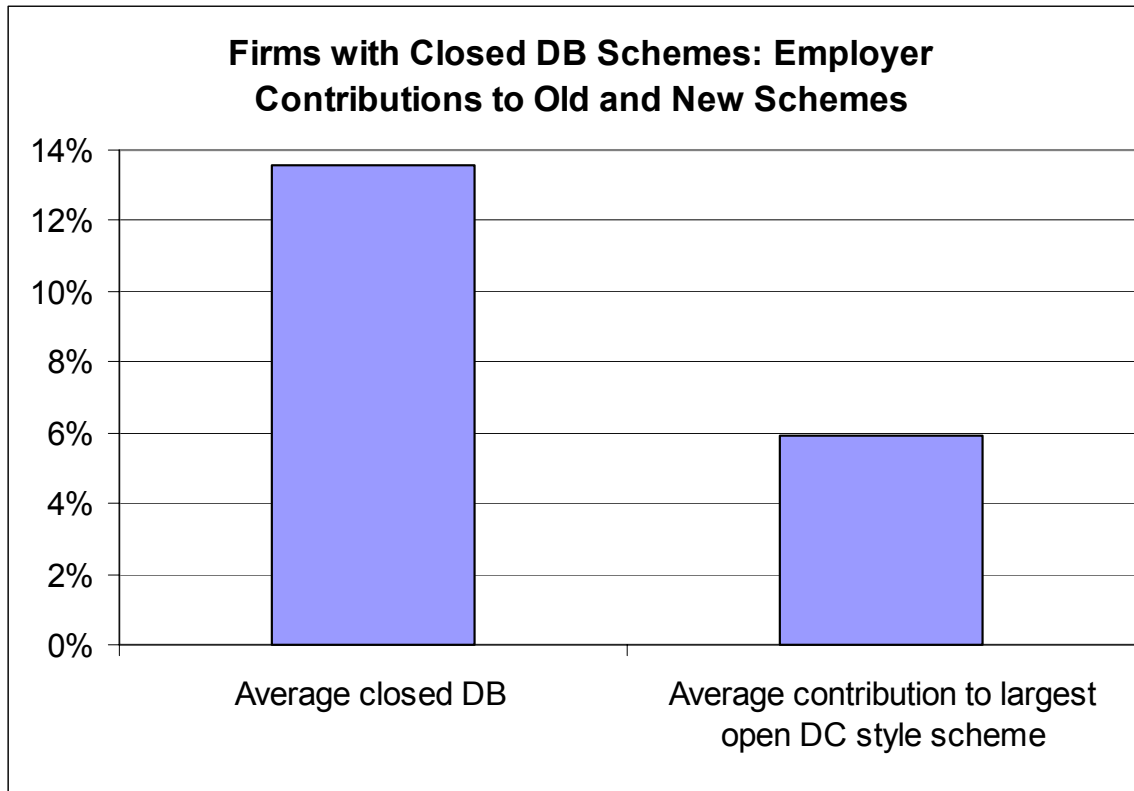
Changes in the status of schemes since July 2000, in terms of active members of defined-benefit schemes and sections of schemes in April 2004



Source: GAD

UK employer pension provision

With a likely negative effect on pension savings...



Source: DWP

Why offer pensions: economic benefits

Economic theory offers several reasons...

- 1. **Recruitment benefits;**
- 2. **Retention benefits;**
Particularly for DB pensions.
- 3. **Control of exit from the firm;**
Particularly for DB pensions.
- 4. **Self-selection/sorting effects.**

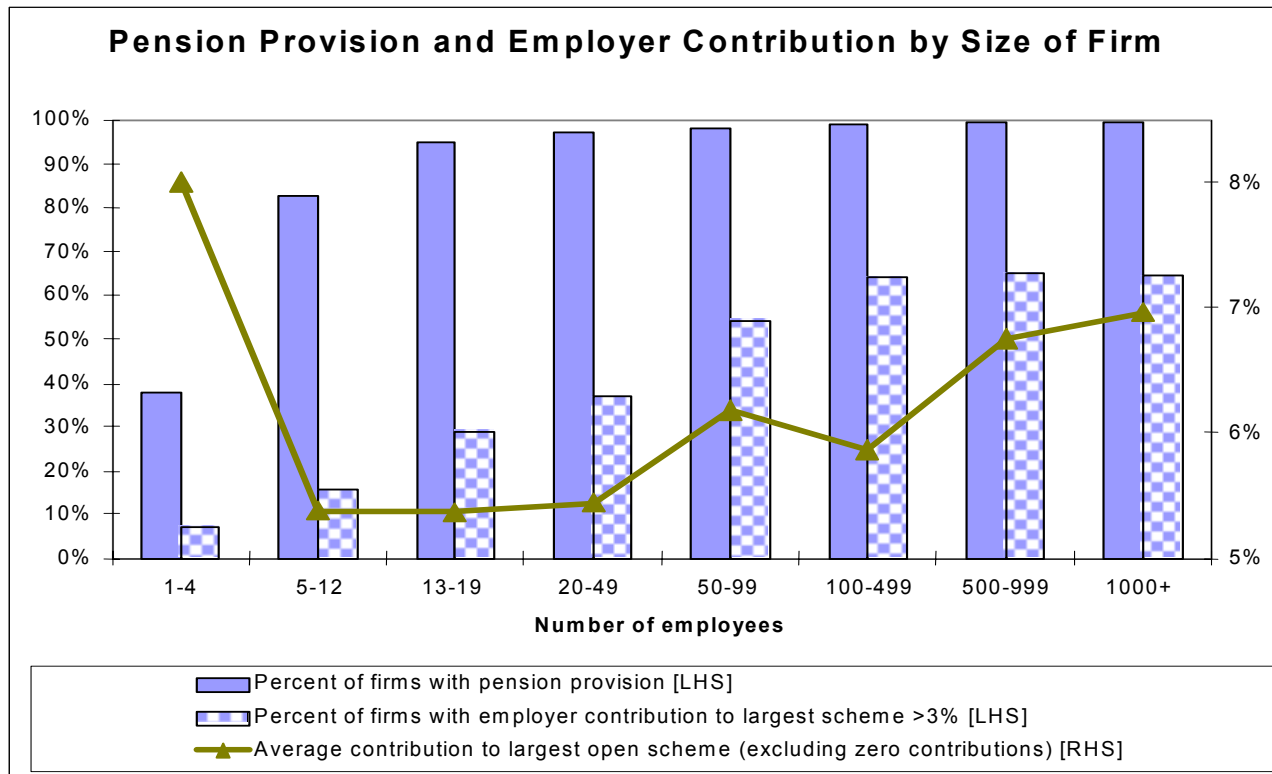
Why offer pensions: economic benefits

Contextual factors also important...

- 1. Size of firm;
- 2. Nature of the firm/industry;
- 3. Individual knowledge and preferences.

Why offer pensions: economic benefits

Reflected in different provision by size of firm.



Source: DWP

Why offer pensions: economic benefits

Empirical evidence provides some support...

- Very little *direct* evidence of productivity effects...
- ...but pension scheme members have higher wages;
Example: Dorsey et al (1998) cite six studies of wage effect of pensions: all but one study find a positive wage premium, with maximum estimate at 38%.
- Hard to determine which effect dominates or even what direction causality runs.

Why offer pensions: economic benefits

- Well-established result that pensions are associated with lower turnover;
Example: Watson Wyatt (2004) finds that percentage that consider quitting is highest among those with no pension (52%), followed by DC (40%) and DB (32%); similar pattern for actual quits.
- Strictly positive effect from lower recruitment costs: CIPD survey (2005) suggests cost of recruitment is on average £3,950.
- Strong evidence of impact retirement incentives on behaviour.

Why offer pensions: what employers say

Those that offer pensions cite economic as well as non-economic reasons...

For example, in a CBI survey (2004):

- 80% cite paternalism;
- 73% think pensions help with recruitment and retention;
- 57% think a pension enhances company reputation.