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DECISIONS

PENSIONS AND EMPLOYEE BENEFITS

LIVE LONG & PROSPER?

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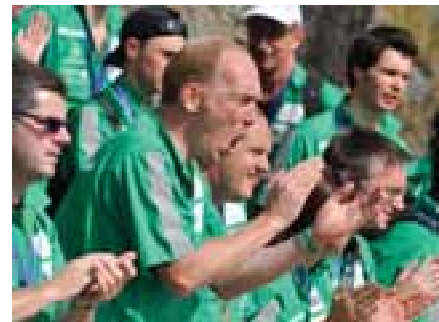

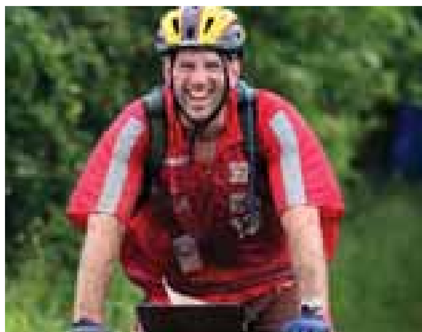

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Limping along like a sick dog, defined benefit pension schemes have truly suffered over the past few years. And that poorly pooch is set to see its health worsen. The question for many companies and their pension schemes is whether to nurse a terminal situation or put the scheme to sleep? Or, as we examine here, look into alternative routes to offering a pension plan to their employees that does not drag the business into a financial black hole.

What should make FDs sit up and pay attention is the blooming of the longevity risk swaps market which, after a slow take up, is set to shift up a gear in 2010.

There is now demand for pension schemes to offload their risks and, indeed, banks and insurance houses have been lining up over to offer their services and play their part in educating FDs and trustees on the workings of longevity swaps.

In this, our latest *Decisions* supplement, we've got a special section dedicated to longevity swaps in association with Hewitt Associates. In addition, Anthony Harrington examines alternatives for both very high and very low earners. And after the child tax credits fiasco, Catherine Chetwynd looks at where employee benefits for working parents might go in 2010.

Lucy Quinton

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LONGGAME

As more players enter the market, Lucy Quinton asks if longevity swaps will become a common feature among UK companies

Luckily for the sellers of longevity risk swaps, the number of prospective clients for the product equal the number of companies that run a pension scheme. Plus most of these are being weighed down by their pension scheme obligations and want a way out – cue the blossoming of a large and liquid market in these financial instruments. But while there has been a handful of swap deals done in recent months that have raised their profile, some observers think the fundamentals may not yet be strong enough to see it turn into a mature market.

A longevity swap is a contract that allows a pension scheme to sell the risk of its members living longer, but hold on to the underlying asset (the scheme and its members). The buyer accepts the risk in return for a steady stream of income ▸

by way of fixed payments from the scheme that are unaffected by the longevity risk.

There are two key types of deals to choose from currently: capital markets-based, which is a longevity swap backed by one or more investment banks putting up the required capital and securities to undertake the hedge, or insurance-based, in which the lead counterparty is an insurance company (but so far, usually backed by investment bank capital).

The two types are essentially the same deal but the difference is the main counterparty. Capital markets swaps are governed by the International Swaps and Derivatives Association while insurance-based contracts are governed by the insurance regulatory regime, though the latter has not been tested by the market, given that all deals have had investment banking capital behind them (and in the case of one of the first landmark swaps, insurance giant RSA's swap with counterparty Rothesay Life; Rothesay is a wholly-owned UK subsidiary of Goldman Sachs).

First deals

The handful of deals done by UK companies so far have been restricted mostly to pension funds of RSA's scale – Babcock International's swap for two of its defined benefit (DB) schemes with Credit Suisse was the very first deal in the UK, completed in May 2009 – but the numbers are widely anticipated to rise as finance directors remain unsettled about their pension burdens and will need to throw yet more cash at their schemes to adhere to new Solvency II capital adequacy rules.

Providers see the UK as one of the most lucrative European markets for longevity swaps given the size of its pensions industry, followed closely by the Netherlands and Germany. As *Financial Director* went to press in mid-February, rumours had surfaced that UK food producer Premier Foods and Germany's BMW were about to confirm they had signed longevity swap contracts, though both remained tight-lipped.

However, the development of the market may be held back for some time by a lack of understanding of the concept among trustees, finance directors and others. Even those selling it cannot always explain clearly what it is. And the pension fund manager at one UK company that has successfully undertaken a longevity swap says simply organising the requisite data and contracts to orchestrate the deal could be one reason why there has not been faster take up.

"It has taken so long for the market to take off because it has been a lengthy process to negotiate and complete a deal," says Nick Greenwood, pension fund manager at the Royal Berkshire Pension Fund, which completed its longevity swap contract with Swiss Re last December, covering

11,000 staff pensions and liabilities worth £750m. Greenwood agrees that the time it takes to familiarise all parties with the concept, explain how it works and then figure out a deal everyone is happy with is both long and complex. There is a degree of education at both FD and trustee level to be done.

Longevity swap deals are very costly given that it is still a nascent market requiring mostly tailored contracts, which may hold it back. But this will change

Sellers of longevity swaps are investing in overcoming this particular hurdle. In February, a consortium of investment banks and insurers including Axa, Legal & General, Royal Bank of Scotland and Deutsche Bank set up a dedicated organisation, the Life and Longevity Markets Association, aiming to promote the idea of hedging longevity risk and build the skeleton of a functioning longevity risk market, pushing the development of standardised contracts, establishing a longevity trading index (similar to JP Morgan's LifeMetrics, which currently covers The Netherlands, Germany, England and Wales and the United States) and a standardised longevity valuation model.

Questions remain, however, as to whether longevity swaps will become a common thing or if they'll remain restricted to larger companies with huge pension liabilities. "The jury is still out on whether the risk transferred is material enough to go to the trouble of buying a longevity swap," says Richard Giles, pensions director at PricewaterhouseCoopers. Giles adds that, at present, longevity swap deals are very costly given that it is still a nascent market requiring mostly tailored contracts. But he thinks this will change.

Time is right

John Lawson, Standard Life's head of pensions policy, says the longevity risk swap products that came out of the banking sector a few years ago did not really appeal when they were first on offer as hefty pension schemes could be shouldered by companies in good times. But he thinks they are now being picked up as more companies close their DB schemes to existing or new members. Additionally, many are unable to afford to pursue a full scheme buyout as underlying asset values take a battering and intense interest in that exit route pushes the cost out of reach for many – opening the door for longevity swaps.

Many are betting on these swaps as one way to manage various burdens holding back the UK economy from exiting the recession of the real economy. But some think that the creation of a sustainable longevity swap market could also help the industry to improve its image and to offer something that can help businesses through what is expected to be a long road to recovery. It is also an alternative to simply closing schemes: in 2008, according to The Pensions Regulator, 18% of defined benefit schemes were shut to future accruals, while in 2009 a glut of big companies including Vodafone and Barclays followed suit taking advantage while employees are less likely to complain – because at least they still have their jobs. ■

Read more about the level of DB scheme closure at www.financialdirector.co.uk/2256727

MAKINGSENSEOFSWAPS

While the longevity swaps market is still relatively young there is an opportunity for FDs to see how early-joiners get on – and understand the risks involved, finds Lucy Quinton

"For most pension schemes, we see the longevity swap debate as an interesting intellectual exercise, but one that currently has little real-world application." That was the opinion of Norwich Union's head of defined benefit risk management Nick Johnson last March, in a debate hosted by *Professional Pensions* magazine on the emerging topic.

"There are a number of practical complications for which we haven't seen any workable solutions. These include cost effectiveness, difficulties of understanding and documenting exactly what you are getting."

Johnson remains correct in the latter, at least. The risks of these products have not been examined as closely as the perceived benefits – but this is an important part of the process of understanding them, which some report trustees and FDs need to pay closer attention to.

The resounding entrance into the longevity swap market by some very large businesses has raised interest from many other UK businesses. But there are voices warning that FDs need to swot up on the potential for costly problems down the line. Finance directors should be taking note of the longevity risk swap market as a way to avoid closing schemes altogether and as a sophisticated way to manage pensions volatility that is hitting profit margins with alarming force.

The gap between what providers want to charge and what schemes are willing to pay is closing

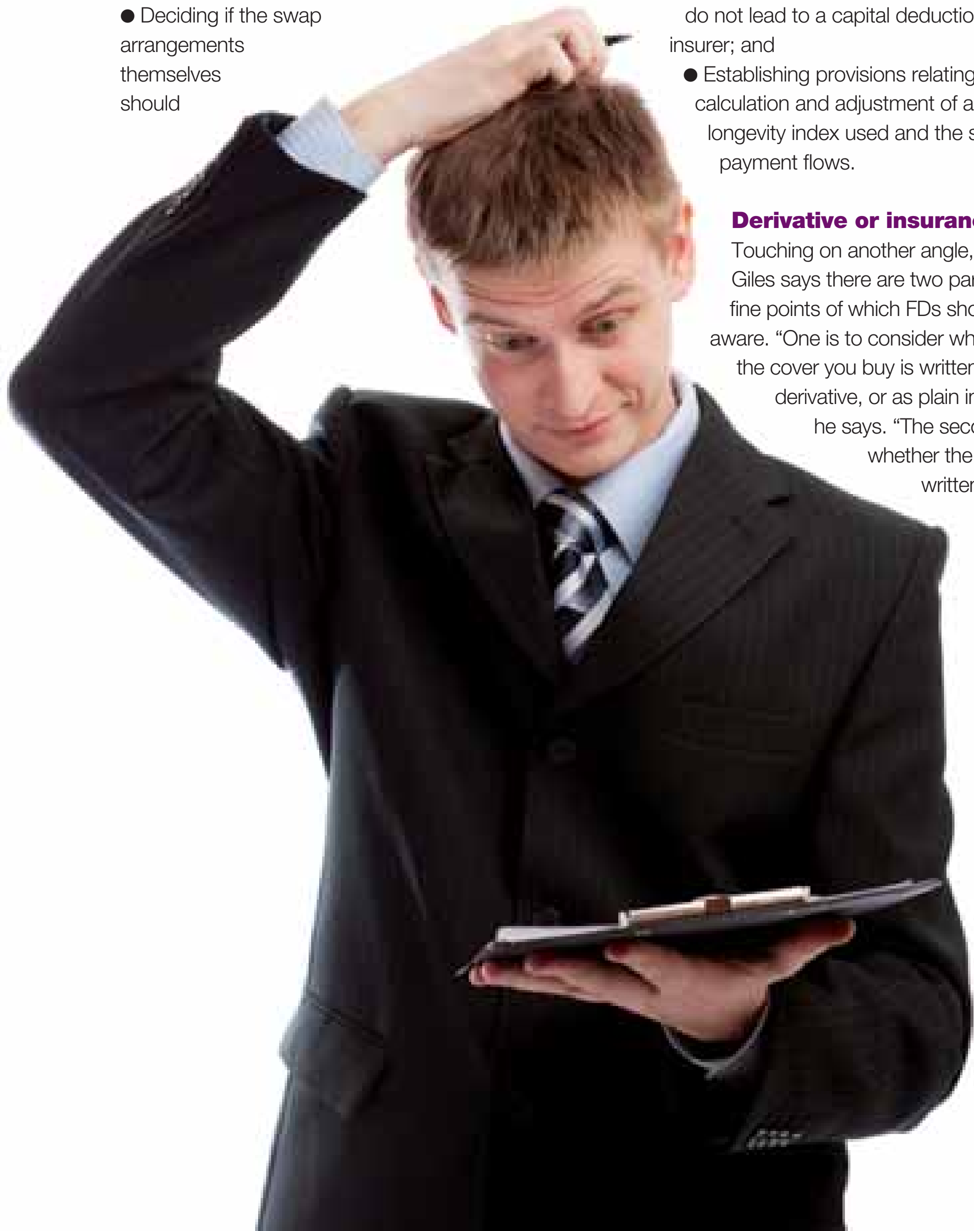
Richard Giles, pensions director at PricewaterhouseCoopers says some attractive prices for longevity swaps are starting to come through, as some of the providers look to break into the market and some schemes' own assessment of future life expectancy moves more in line with what counterparties price. "The gap between what providers want to charge and what schemes are willing to pay is beginning to close," he explains.

But even before the first UK deal had been made in 2009, law firm Slaughter & May issued guidance around the possible ramifications from the emerging idea of insurers transferring pension risk out to the wider financial markets. While advising that those looking into these products will need to retain the advice of both swaps, insurance and financial regulatory experts – in itself, an expensive business – it outlines a series of concerns that FDs could use as an initial checklist when looking into longevity swaps. These include:

- Satisfying regulators as to the extent of risk transfer – which it thinks has a profound effect on termination rights, warranty protection and premium adjustment;
- Ensuring the swap is not at risk from counterparty default or other change in the credit environment;
- Establishing who is responsible and where the rights lie in respect to the administration of ▸

underlying insurance policies, asset management and custody arrangements;

- Outlining how the swap is affected if the business from which the pension scheme emanates changes hands, or if there is a merger. For example, outlining what happens if your business becomes insolvent
- Deciding if the swap arrangements themselves should be characterised as a contract of reinsurance, for legal and regulatory purposes, and what the consequences are;
- Establishing that rights under the swap amount to an admissible asset from the insurer's perspective that can count towards the coverage the insurer has of its technical provisions – and do not lead to a capital deduction of the insurer; and
- Establishing provisions relating to the calculation and adjustment of any longevity index used and the swap payment flows.



Derivative or insurance

Touching on another angle, PwC's Giles says there are two particularly fine points of which FDs should be aware. "One is to consider whether the cover you buy is written as a derivative, or as plain insurance," he says. "The second is whether the cover is written against the longevity risk from the members of the scheme, or against the longevity risk from the population index used by the arranging counterparty."

Giles adds that risks to all longevity swap contracts include the risk that the cover doesn't match the schemes liabilities such as spousal benefits and the potential for the effect of inflation – something many are worried about in the future. There is, of course, the risk that the counterparty will go bust. "Care must be taken to future-proof the contract," says Giles, meaning that buyers must ensure either they insure against this eventuality or write into the swap a surrender clause that ensures the counterparty will surrender the swap to another party that can ensure continuity if it can't, such as the Pensions Protection Fund.

Cost remains prohibitive for many companies who might otherwise undertake a longevity swap and counterparties are likely to charge extra for insurance cover as well as taking a rather juicy margin. If you can afford it and can weigh that against what you save in transferring the pension risk out, it is worth a look. "It's a case of, is that peace of mind worth it," says Giles. "For many pension schemes it proves to be a vital lifeline."

Too difficult

Ensuring all relevant parties understand what's on offer is not a simple undertaking. There are significant obstacles to pension fund managers from feeling confident in taking out a hedge on their longevity risk. According to Noel Hillmann, managing director at pensions research outfit Clear Path Analysis, more than 80% of pension schemes it contacted in a recent report on longevity hedging reported their greatest concern and challenge is simply understanding the details of the swap they were entering into. "Collateral, counterparty risk, impact on the sponsors financial reserves and education of trustees and corporate sponsors were all issues that they felt they needed to understand before progressing further," he reveals.

Robert Gardner, founder of risk management advisory Redington, supports this view. He believes there has been a tendency to dismiss longevity as too difficult, with many schemes using prudent actuarial assumptions to provide the 'illusion' of risk management. "However, the emergence of longevity risk transfer concepts in the UK appears to provide the elusive final piece of the liability-driven investment risk management jigsaw puzzle," Gardner says. And with the creation of the Life & Longevity Markets Association, which is aiming to increase understanding and, in doing so, bolster activity in the market, the idea that longevity risk swaps are simply too brain-zapping to consider may ebb away. ■

Longevity swaps: who bought what in 2009?

Scheme	Counterparty	Size
Babcock International	Credit Suisse	£1.2bn
RSA	Goldman Sachs	£1.9bn
Aviva	Partner Re	£475m*
Royal Berkshire Pension Fund	Swiss Re	£1bn

*reported liabilities swapped

Source: Global Pensions/Hymans Robertson

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Longevity swaps remain the preserve of very large funds, while defined benefit schemes keep

The question over where to turn to hedge pension scheme risk, and specifically longevity risk, is something that is rousing the curiosity of many employers including the UK government, which is currently reviewing public sector pension schemes and the management of creeping longevity risk – not just for scheme members who have already retired but for existing members and future employees.

Questions remain as to whether the government will reduce its final salary schemes, sell them off, or close them. Meanwhile, the "slice-and-dice" option for managing pensions risk and the option to bundle it up into one contract and hand it to one manager, which may be cheaper, is a fixture of corporate scheme trustee conversations.

The stats prove that wholesale change in the approach to these challenges can't be avoided. In a 2009 survey of finance directors among UK companies, pensions advisory MetLife revealed that more than one in five companies saw a rise in complaints from staff about their pension scheme in the 12 months previous, following market volatility. It also found that 22% of responding FDs saw a rise in complaints about defined contribution (DC) schemes outstripping those about defined benefit (DB) schemes, despite the trend of moving away from DB schemes that appeared to give DB schemes a growth opportunity – but this has not been the case. With the typical FTSE-250 company reporting liabilities in its DB schemes equalling more than one quarter of their market capitalisation, there has to be other routes to managing this risk and stopping it from seriously eroding profitability.

Investment strategy risk

Finance directors should be working ever more closely with their pension scheme trustees to manage the risks in the pension investment strategy. Most UK private sector schemes are relatively mature with shrinking numbers of active members, so the risk of dwindling contributions is dwarfed by the risk of managing the assets and liabilities already built up against the level of market volatility. According to pensions advisory Hymans Robertson, it is this that poses among the biggest risk to shareholder value creation. If FDs can work more closely with trustees to mitigate these risks from their schemes at the right price, whether that involves buy-in, longevity swaps or more traditional asset de-risking strategies, time is of the essence.

Standard Life's head of pensions policy John Lawson says that most employers with DB schemes would prefer to undertake a full buyout of all their liabilities. "But as that is unaffordable for most of them, the next best alternative is to insure longevity risks while also de-risking assets."

That is the window of opportunity for longevity swaps, but their success will depend on how assets within DB schemes perform. Lawson explains: "If asset values climb without an accompanying increase in liabilities, employers

WHO WANTS TO LIVE FOREVER?

Despite an increasing array of ailments, people in the UK are living longer than ever before – putting an untenable strain on pensions provision.

But those in the later stages of life are living in a poorer state of health today, despite leaps in healthcare provision. According to the Office for National Statistics (ONS), 30 years ago, a 65-year old man had a one in 1,000 chance of living to the age of 100, while today that figure has increased to one in 100. There are already 10,000 people in the UK who have reached the 100-year milestone.

There are three basic factors that are attributable to people living longer: diet, health and lifestyle. There is more dietary advice available to people today (sometimes provided by employers) and better education on how to become fit and stay fit and there is a greater awareness of the need to maintain a healthy lifestyle. There is also the influence of the smoking ban in the UK, which has a notable effect on mortality assumptions even though the ban has not been in place for very long.

As a result of the increased life expectancy among the pensionable population, actuaries have to alter the way they measure life expectancy, or mortality, which means a wholesale change for the pensions industry and a greater, longer-lasting burden for businesses.

Postcode lottery

There is evidence to suggest that where a person lives can play a determining role in how long they

TO HIDE

closing. Lucy Quinton examines the other longevity risk management options open to FDs

might prefer full buyout. If not, more employers are likely to consider removing or reducing longevity risk with hedges."

At any rate, it is predicted that there will be a continued trend of full buyouts and increasing uses of longevity hedging. Many commentators are urging the government to issue longevity bonds, which would effectively transfer longevity risk to the taxpayer. However, Lawson does not think this likely to happen, at least not in the short term.

But Martin Bird, principal consultant at pensions advisory Hewitt Associates, thinks something urgently needs to be done about government pensions. "Longevity improvements have been a key contributor to increasing the cost of public sector pension provision and also to the increasing difference in value between public sector and private sector pension provision," he said after the 2009 pre-Budget report. "Effective cost-sharing would limit both the cost to the public purse and further growth of that differential."

The corporate reaction to the realisation of a long-term adjustment in the health of the UK economy has been, for many, the knee-jerk decision to close DB schemes. Lawson says that many companies can no longer afford to keep staff in DB schemes and, while most have already chosen to close schemes to new members, there are plenty going a step further and closing them to existing members too. Alliance Boots took the decision to close its DB scheme to active members this January and consulted staff about launching a DC scheme in its place.

Indeed, the reality for some is that DB schemes are simply unaffordable to many companies which have little choice but to close them to avoid the balance sheet impact and volatility, according to Robert Gardner, founder of risk management advisory Redington. While this may be the case, it is not necessarily the best option for all businesses and opinion is divided over the best course of action. For some companies, there are ways of managing the risks properly should a company want to keep the scheme open. ■

The reality for some is that DB schemes are simply unaffordable to many companies which have little choice but to close them

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live. The ONS says it is possible to see how longevity compares between different areas. Actuaries working on new mortality assumptions would not use that data specifically, but rather the determining factors of the data: to understand the characteristics of the people that live in an area with either high life expectancy, or low. According to Hewitt Associates, larger pension schemes have typically carried out this analysis based on their own membership data to determine a base table, which can be tweaked to allow for future life expectancy improvements.

New mortality data

It is common for actuaries to look at tables based on a huge amount of data, indicating mortality rates from lots of occupational pension schemes. Actuaries also look at insurance company data. This has been the case for a few years now and the UK is considered to be ahead of the curve, since in other European countries, these tables are only just coming in to use. Hewitt Associates believes that continued innovations in modelling mortality rates are helping to provide a better understanding of the factors that affect member life expectancy and provide reassurance to schemes assessing the merits of investing in longevity swap products. Now, with the development of the Life and Longevity Markets Association it will create standardised contracts, a trading index valuation model for mortality.

GREEDFORGOOD

The partial withdrawal of tax relief on high-earner pension contributions is unavoidable. Now they'll be sharing more of their pot with the government, says Anthony Harrington

The Chancellor's assault on pensions as a reward mechanism for high earners might have seemed like a brilliant political wheeze in the wake of public outrage over the pensions shenanigans of the ex-boss of Royal Bank of Scotland, Fred Goodwin.

From the government's perspective, the announcement of a partial withdrawal, with effect from April 2011, of tax relief on pension contributions for high earners and a phasing out of personal allowance entitlement for those earning more than £112,950 effective from April 2010 must have looked like a solid win from every angle. It was presented by Alastair Darling as simple fiscal justice and fair play.

His comment, on announcing the rule changes in the Budget was: "I intend to address the anomaly which sees a tiny proportion at the top taking a large slice of the help we give people to save. It is difficult to justify how a quarter of all the money the country spends on pensions tax relief goes, as now, to the top 1.5% of pension savers."

Unfortunately, it now looks as if the rule changes are likely to bring the law of unintended consequences into play. Before we get into the nitty-gritty of what the changes mean for a spectrum of high earners, let's look at the big picture issue. Does "chilling" pensions for high earners threaten everyone else's pensions pot?

State burden

To put this question in context, let's remember that the government is desperate to limit the burden on the state that goes with having an ageing population, where the proportion of working age people compared to retired people is dangerously diminished. Encouraging those in work to provide for their own old age through pensions and long-term savings is the only escape route for the government from that problem.

And its gamble is that high earners will still want to take advantage of the 20% tax relief available on their contributions, plus the fact that the capital growth of their pensions pot is free of tax (until, of course, pension benefits start to be paid). However, advisers tend not to see things that way.

Neville Bramwell, tax partner at Deloitte, explains why the numbers do not look even remotely attractive for high earners. "The key here is to look at the post-tax value in the round," he says.

He explains that if your employer pays you £100 additional of salary and you are a 50% tax payer, then you have £50 post-tax in your pocket. If you invest that money, you will pay tax on any capital growth annually, but not on the original £50 investment.

However, if you put that £50 into a pension fund and the performance of the fund turns out to be flat, the post-tax value of the pension comes out at the equivalent of £39.

In other words, you have deferred your consumption of that £50 for a number of years and you have lost 22% of its value purely through the Chancellor's rule change.

"The point here is that you have to get a lot of growth for the pension of a high earner to outperform other investment options. Even if the fund doubled over 10 years, which would require it earning 7% compound, it is not clear that you would be ahead," says Bramwell. "Moreover, by investing privately, you would have access to the entire pot (after paying capital gains tax). The holder of a pension only gets access to a quarter of the fund. The rest vanishes into an annuity."

Instead of simplicity, we now have massive complexity, with the government's anti-forestalling regime – designed to stop high earners massively upping their pension contributions before the April 2012 start date – creating new layers of opacity. "What is not well realised is that it is not just those with a headline salary of £130,000 that are affected by the changes. Because the provisions relate to your whole taxable income, some people on £80,000 may find themselves wobbling in and out of the £130,000 trap," he says.

Anyone on that kind of income who sells, say, a chunk of shares, plus gets a bonus, could find themselves suddenly getting hit with a surprise tax bill relating to their membership of their employer's final salary scheme. "This throws into disarray the pension choices of thousands of people," says Raj Mody, a pensions partner with PricewaterhouseCoopers.

He anticipates that a likely outcome of the changes will be a sea change in the concept of retirement savings. "We may well see the concept of retirement savings replaced by the goal of general long-term savings, which will have the great benefit of reintroducing flexibility of choice into the frame, something we lost with compulsory annuities," he explains.

Deloitte's Bramwell ▸

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believes the chancellor seems to have forgotten the tax advantages of a pension are there precisely because it is a very inflexible form of saving. "Because it is such a rigid structure, with a compulsory annuity, people need to be incentivised to go into it," he says. Take the incentives away and why bother?"

Which brings us back to the question of whether, in an era where high earners are not inclined to invest in pensions, we can expect high earners on corporate boards to continue to want to include pensions in any form as part of their total reward package.

Pensions rethink

We're likely to see a complete rethink by employers on this. "If you remove the tax distortion that created such an overwhelming case for pensions, then you open the way for employers to consider a range of structures. We are currently looking at schemes that create a single capital sum for employees, rather than a pension, which, precisely because it is outside the pension rules, can be delivered to them earlier than age 55," says Bramwell.

Henry Denne, head of private client business at actuarial company Punter Southall points out that the rule changes will be particularly hard on those in defined benefit (DB) schemes. "To date, people have tended not to appreciate the cost to the employer of these schemes. But when they find themselves hit for a 30% benefit-in-kind tax charge on their annual DB benefit we expect to see them really questioning their continued membership of these schemes," he says.

The exact mechanism behind the calculation of any revenue from the benefit-in-kind tax will be the subject of consultation this summer. However, Denne says that Punter Southall is working on the assumption that it will be around ten times the increase in the pension. "If you accrued a further £1,000 of pension through the year, that would be deemed as a contribution of £10,000 and you would have a 30% tax bill raised on that, after allowing 20% relief as a 50% tax payer," he says.

The consultation might tweak the multiple and it might end up being age-related, but it will still hammer the taxpayer with a higher tax bill.

Of course, if this did disincentivise high earners from staying in DB schemes it might, at a stroke, help UK plc to expedite the dumping of their own DB schemes by removing a huge chunk of liabilities. However, Deborah Cooper, pension strategy expert with Mercer, says that companies should not expect to see any additional readiness on the part of high earners to transfer out of the company's DB scheme.

"It is far more likely that they will simply close their membership but keep the accrued benefits, since those have a real value in the current environment," she says.

Cooper believes there is a very real danger that the government's removal of tax relief on pension contributions for high earners, coupled with its decision to tax the employer contribution as a benefit-in-kind, will weaken the whole fabric of UK pensions. "There is a concern that those in decision-making roles will disengage from occupational schemes if there is no benefit in it for them. It will accelerate the levelling down of UK pensions to the minimal contribution standards proposed for the government's Personal Accounts scheme to be introduced in 2012," she says.

PwC's Mody also believes the government's move will do tremendous collateral damage to UK pensions. "It has undermined the confidence of corporate management in occupational pensions because of constant changes in the fiscal regime," he says. He finds it astonishing that the 2006 Pensions Simplification initiative, which was very carefully consulted on and which still had elements bedding down in April 2009 has been cast aside in an instant on what looks like a political whim, or a piece of political expediency.

Those in decision-making roles will disengage from occupational schemes if there is no benefit for them

Adrian Boulding, pensions strategy director at Legal & General, says that the loss of interest in occupational pensions on the part of UK board-level management began in 1996 when ex-chancellor Nigel Lawson introduced an earnings cap on pensions for those earning more than £65,000. "This latest attack by the UK government is just another spin to the wheel," he says.

Boulding adds that there is no point in anyone hoping a Conservative win in the coming general election will restore tax relief on pensions contributions for high earners. "We have asked the Conservative Party and it says that, while it wouldn't have gone about matters in the same way as the incumbent government, rectifying the change is not top of its list of priorities – so the changes look like they are here to stay." ■

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NEST EGG FOR LOW EARNERS

From 2012, workplace pension provision reform places a duty on employers to automatically enroll eligible workers into a pension scheme that meets certain criteria – known as auto-enrolment, *writes Paul Gilbody*.

Finance directors should take note as the government will require employers to make a minimum contribution to the scheme so that workers can eventually expect a minimum pension contribution of 8%. This will be made up of a 3% employer contribution, tax relief and the worker's own contribution. The overall package of reforms represents a significant change in the pensions landscape and requires planning on the part of FDs of all company sizes.

For employees on low or moderate salaries, the government has mandated the creation of the National Employment Savings Trust (Nest). It aims to be low cost, easy to use and understand for both employers and members. The scheme will be run by a not-for-profit trustee corporation and is due to launch – on a voluntary basis – in 2011.

Currently, approximately 750,000 employers in the UK's private sector offer no pension to their employers, with a further 280,000 offering some provision – albeit with an employer contribution of less than 3%. More than half of those earning between £5,000 and £25,000 do not contribute to a pension at all.

Under the Pensions Act 2008 employers will be required to enroll eligible jobholders into any workplace pension arrangement that meets certain criteria. Nest will be one of the qualifying workplace pensions available to employers to meet the new duties that start to be introduced from 2012.

Anyone who becomes a member of Nest will keep the same retirement pot throughout their working life. It will belong to the individual and travel with them. This also means several employers can contribute into the same pot over a member's working life. If the member has more than one job, Nest will allow more than one employer to contribute to their pot at the same time.

Paul Gilbody is head of product and scheme promotion at the Personal Accounts Delivery Authority

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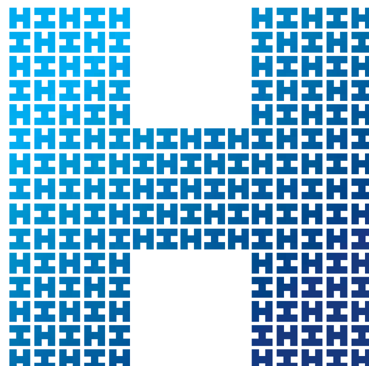

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FAMILYFORTUNES

The demands of our fiscal deficit have put more families under pressure to have both parents working. Catherine Chetwynd examines the provision for their financial support

Gordon Brown announced at the 2009 Labour party conference that he proposed to scrap tax benefits on childcare vouchers for anyone claiming them after April 2011. But parents have been given a stay of execution after a public backlash and, allegedly 92,000 signatories on a petition against it on the Downing Street website. The vouchers will now stay, but tax relief on them will change.

A basic rate tax payer saves £944 a year on their childcare bill, while a higher rate tax payer saves £1,173. From April 2011 that will change and the tax relief for all working parents, regardless of their tax band, will be 21%.

George Farrow, client services director of employee benefits company Asperity, says that most of the people taking this benefit are on the basic rate. It's a massively undervalued benefit though, with take up surprisingly slight as just 190,000 of 24.7 million parents in the UK are using the vouchers, according to Farrow. There are also tax advantages for employers offering them to staff as they achieve Secondary National Insurance savings of 12.8%.

Shared leave

The government has also announced its intention to allow new fathers to take advantage of additional paternity leave and pay during the second six months of the child's life, if the mother wants to return to work with maternity leave outstanding. This enables parents to share a period of paid leave between them and it will be applicable to parents of children due on or after 3 April 2011.

Although the change in maternity and paternity arrangements will allow parents greater choice and flexibility, it could prove problematic for employers, according to Ros Kindersley, a corporate search expert at Judy Farquharson Search and Selection. "Parents should be permitted to ask to swap maternity leave, but the company should not have to accommodate them," she says. "It could be arduous and could encourage companies to discriminate against women of child-bearing age or against a man who might want to stay at home if his partner earned more than he did. It could be a complete dog's dinner because it is so difficult to administrate," says Kindersley. "Who is going to benefit? When you employ someone, you employ them as a person, not as a family. It puts too much of the onus of responsibility on companies."

Given the pending General Election, it is interesting to note the direction of policy in this area from other parties. Kindersley's views are echoed by the Conservative Party, where officials say it supports flexible working for parents, but gingerly approaches the issue of companies managing the consequences. It says that as companies will not always be able to allow flexible working suited to each parent, it would be "inappropriate to compel employers so it will limit the policy to the 'right to request' rather than allowing a 'right to demand'".

THE COST OF CHILDCARE

- **The average childcare cost for 25 hours per week is £88 in England - more than half gross average part-time earnings of £153 per week**
- **The average yearly expenditure on childcare is £4,576 for English parents, £4,368 for Scottish parents and £4,056 for Welsh parents for 25 hours of nursery care per week for a child under two**
- **Parents in London pay the most in the UK, up to £11,050 each year for 25 hours childcare per week or £22,100 for 50 hours**
- **Childcare cost rose above inflation for all types of childcare despite the UK being in recession - the cost of a nursery place for children aged two and over rose by 5.1% in England, almost double inflation**

Source: Daycare Trust, 2009

The Liberal Democrats would allow parents to share leave between them in whatever way suits them, but has said that it would extend the policy of flexible working to all staff – not just parents – in acknowledgement that there may be other members of families or even friends supporting a working family and its childcare needs. It also proposes to introduce 19 months of paid parental leave from when a child is born and wants to offer all parents free childcare for children aged 18 months to five years.

Under pressure to compete for the best staff in recent years, many companies have gone beyond legal requirements where supporting the needs of working parents are concerned. Travel management company HRG and PricewaterhouseCoopers both give an enhanced salary as encouragement to mothers who return early from maternity leave. HRG also has 200 home workers out of a total workforce of 1700, which helps working parents where childcare is expensive – childcare vouchers or not.

Meeting the requirements of working parents will be a thorny issue for any government but if there is to be any hope of supporting the recovery of the UK economy, it will be a case of all hands on deck. But it will be interesting to see whether any of the three main contenders can fulfil their intentions. ■

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