

CBI submission to the Department for Work & Pensions

Responding to the Pensions Commission final report

February 2006

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The CBI supports the broad thrust of the Pensions Commission's proposals...

1. The CBI has welcomed the Pensions Commission's final report on the long-term future of UK pensions. CBI members support the broad thrust of the report and believe many of its recommendations, if implemented, could go a long way towards ensuring a sustainable future for UK pensions. In particular, members have welcomed the proposals to reform and simplify the state pension system as well as the principle of establishing a new low cost, high coverage savings scheme for those on lower incomes and without access to an occupational or private pension arrangement.

... but employer compulsion poses a significant risk to the economy, without delivering an increase in the value of private savings in the UK

2. CBI members, however, have serious concerns about the Commission's proposal to compel employers to make a 3% contribution, where an employee remains opted-into the National Pensions Savings Scheme (NPSS) or an alternative occupational arrangement. The CBI believes that the introduction of employer compulsion would damage growth and employment in some firms, particularly SMEs, whilst failing to raise overall savings levels and could lead to a levelling down of existing pension provision in some firms. In particular, CBI members are concerned that:

- employer compulsion would prove unaffordable for many employers who are presently not contributing to pensions, particularly those in the SME sector, with negative consequences on growth and employment;
- “contingent” compulsion is inequitable – failing to take into account the very severe financial pressures facing businesses at different stages in their life-cycle;
- employer compulsion will also significantly increase costs for many employers who already provide pensions;
- many employers could be forced to level down existing provision and compulsion could provoke a longer-term shift away from tailored occupational provision;
- compulsory contributions would be ratcheted up over time as a consequence of trade union pressure and fluctuations in economic circumstances;
- compulsion could threaten the future erosion of existing tax reliefs designed to encourage pension provision, further undermining occupational provision; *and*
- compulsion does not command the necessary consensus amongst political parties and key interest groups to prove durable over the longer-term.

The experiences of other countries, such as Australia, where compulsory employer contributions have been introduced, supports our stance that employer compulsion would have negative and unintended consequences in the UK.

3. CBI members fully support the over-riding objective of the Turner report which is to increase the number of people saving for their retirement, while not undermining the existing level of pensions savings in the UK. CBI members have reacted positively to the

proposal for a new automatic opt-in policy for all employees and believe this will deliver a significant increase in the number of people saving for retirement in the UK. However, by overlaying this proposal with an additional requirement compelling employers to make mandatory 3% contributions to their employees' pensions, CBI members believe there is a significant risk of undermining the potential success of auto-enrolment, by threatening a levelling down in existing occupational provision, leading to a lower value occupational pensions environment.

The UK can achieve a high coverage, high value pensions environment by introducing auto-enrolment for both employers and employees

4. Under the Pensions Commission's proposals, employees would – quite rightly – be given the right to opt-out of NPSS on the grounds of affordability or circumstance. CBI members believe that the same logic must be applied to employers – and that equality of treatment demands that employers must also have the opportunity to opt-out of NPSS. **The CBI therefore believes that the Government should ensure that both employees and employers are automatically opted into either an occupational scheme where it exists, or NPSS – but that both parties should have the ultimate choice to opt-out.**
5. CBI members believe that automatic enrolment for employers and employees – without compulsion – can deliver a high coverage, high value private savings environment in the UK if it is delivered in a way that:
 - encourages and incentivises those most in need of support to contribute to pensions – i.e. individuals on low incomes, as well as SMEs firms with no existing pension arrangements or larger companies who will see their costs increase significantly from the status quo; *and*
 - fosters a constructive dialogue in the workplace about the reasons why an employer might have chosen to opt-out of a scheme which could lead to more employers and employees coming to agreement on possible ways forward where there is demand from employees for an employer contribution.
6. The CBI, in consultation with its members, has developed a proposed model for automatic enrolment. An illustration of this model is included in Annex 1. In summary this proposed model would:
 - automatically opt-in both employers and employees into an existing occupational pension scheme or the NPSS, but with the option to opt-out for both;
 - require Government to work together with business and the trade unions to promote a national 'salary sacrifice' pensions campaign – "Pension Builder" – that would make employee and employer contributions more affordable;
 - introduce a new targeted incentive for small employers employing up to 250 employees, at an approximate annual cost of £500m. The Government could choose from two potential incentives:
 - **the "Partnership Pension"** – providing matching Government contributions to boost pension saving among small firms and their employees

- **a pension tax credit** – to incentivise and reduce the cost to small employers of making pension contributions;
- encourage dialogue between employers and employees regarding whether to participate in a new national savings scheme, by ensuring that employers who choose to opt-out are required to explain this decision to their employees if there is demand for an explanation.

7. This paper is set out in two sections:

- the first section details the detrimental impact employer compulsion will have on the UK economy, without delivering significant increases in saving and potentially undermining existing occupational schemes; *and*
- the second section sets out how a revised model of automatic opt-in for both employers and employees could work in practice and deliver increased savings amongst the key target groups, without the unintended consequence of damaging growth in the SME sector or a levelling down of overall pension provision.

SECTION ONE: EMPLOYER COMPULSION IS UNAFFORDABLE FOR SOME AND WILL THREATEN EXISTING OCCUPATIONAL SAVINGS

Employer compulsion would prove unaffordable for many employers who are presently not contributing to pensions, particularly those in the SME sector

8. CBI members are concerned that compulsion will increase costs significantly and reduce growth and employment in many firms, particularly those in the SME sector. As table 1 shows employer compulsion will increase labour costs by around 1% for the smallest firms and by 0.83% for those firms employing between 5-49 people¹.

Table 1: Increased labour costs by size of firms as a result of a 3% employer contribution

Number of employees	Total wage cost	Total employer NI cost	Total labour cost (£bn)	3% contribution cost (£bn)	Percentage of total employer labour cost
1-4	28.2	2.6	30.9	0.3	0.96%
5-49	88.2	8.7	96.9	0.8	0.83%
50-249	58.8	6.0	64.9	0.4	0.60%
250+	201.6	20.5	222.2	0.8	0.37%
All	376.9	37.9	414.7	2.3	0.56%

9. Certain sectors will be particularly hard hit by employer compulsion. Compulsion will add 0.98% to labour costs in the agriculture, hunting, forestry and fishing sector; 0.81% in the construction sector, 0.79% to the hotels and restaurant sector; 0.74% in health and social work and 0.65% to labour costs in the wholesale and retail sector. This compares to an average 0.56% increase in labour costs across the whole economy.
10. Members are also concerned that the Pensions Commission may have underestimated employee take-up rates in the NPSS. The Commission assumes a 65% participation rate for employees with earnings between the Primary Threshold and the LET and 80% for employees with earnings above the LET and below the UEL. CBI survey evidence suggests that automatic opt-in policies can produce take up rates above 90% and therefore the increase in labour costs for small firms may well end up higher than projected. The Pensions Commission estimates itself that with higher take-up rates, the percentage increase in labour costs could be 1.2% for the very smallest companies, and at least 0.7% for all employers.
11. The Pensions Commission has suggested that the actual long-term cost to employers will be considerably less than the figures outlined in table 1 and in the long-run close to nil, on the grounds that the pension costs will, over time, be offset by lower rates of salary increase. However, such offset effects will, firstly, take time to work through the system and, secondly, are unlikely to result in a totally neutral impact, as employers will be unable to pass on the entire cost increase given that employees and unions would not accept such a scenario.

¹ Pensions Commission, 2nd Report, Appendices, Appendix F, p249

12. Finally, there is very real concern amongst many CBI members that they will face pressure from employees for wage increases to compensate them for the additional contributions employees are now making to NPSS. Where employers are unable to resist such demands, they could find themselves paying an additional 6 or 7% in pension contributions and salary increases and not the 3% envisaged by the Commission. This will be most harshly felt amongst small firms.

“Contingent” compulsion is inequitable – failing to take into account the very severe financial pressures facing businesses at different stages in their life-cycle

13. The CBI believes that there must be equality of treatment between employees and employers within the NPSS. Employees will quite rightly be given the right to opt-out of the NPSS on the grounds of affordability or circumstance. CBI members believe that the same logic must be applied to employers – and that equality of treatment demands that employers must also have the opportunity to opt-out of NPSS. If either or both are not in a position to contribute then neither should be compelled to contribute – both must be offered both the opportunity to opt-out.

14. Small firms are, in general, less likely to be in a position where they are able to afford a mandatory pensions contribution, given their greater resource constraints and the overriding necessity of growing the business. The CBI believes entrepreneurs and small company owners are the people best placed to take decision on how to run and grow their businesses. This is particularly the case during the early years of a company’s life when any profits or surplus cash need to be reinvested into the company to ensure its sustainability and growth.

15. The CBI’s Enterprise Budget recommendations have argued, over successive years, that Government actions must incentivise business investment and not add to the business cost-base thereby choking off investment. And, the government should use incentives rather than penalties to achieve desirable changes in business behaviour.

Employer compulsion will also significantly increase costs for many employers who already provide pensions

16. The CBI supports automatic opt-in policies and has consistently encouraged firms to consider introducing such a practice – our good practice guidelines for employers with occupational schemes, published in 2004, made clear the benefits. We welcome the increase in take-up rates that will result from automatic enrollment – even though this move will inevitably increase costs significantly for those employers with occupational schemes who do not currently operate an automatic opt-in policy.

17. CBI survey evidence shows take-up rates for defined contribution schemes without automatic opt in is under 40%, whereas take-up rates for firms running automatic opt-in policies are over 90%. The introduction of a compulsory automatic opt-in policy would impact on a large number of schemes given that CBI survey’s show only 22% of companies operate automatic opt-in for new employees.

18. Others surveys show the impact could be particularly severe on sectors such as retail/distribution/hotels and leisure where automatic opt-in results in a 96% take-up rate

compared to 41% where entry is not automatic. Furthermore, auto-enrollment from an early stage of an individual's job tenure would also increase costs for employers with schemes who use waiting periods. Such employers would either have to automatically enrol employees caught by the waiting period into the company scheme or the NPSS.

Many employers could be forced to level down existing provision and compulsion could provoke a longer-term shift away from tailored occupational provision

19. Employers with existing pension arrangements will react in a variety of ways to this increase in costs:

- in a regime based on auto-enrolment, the CBI believes that many firms, (particularly those who to date have offered a company pension scheme but have experienced low take-up rates), will decide to remain opted-into the scheme – even though they will be faced with significant cost increases;
- however, for others, it will not be feasible to absorb this increase in costs, especially in an environment where firms are coping with large scheme deficits, the Pensions Protection Fund levy and the new scheme funding requirements. In particular, CBI members believe that many employers in this situation will react by either:

- *containing costs through levelling down contribution rates for members already within the scheme*

There is significant concern that the compulsory minimum contribution could over time become the norm for contributions rather than the floor with, for example, many employers currently contributing well in excess of 3% moving towards the compulsory minimum over the medium term. This will be particularly marked for those companies currently with low participation rates who feel unable in the future to finance higher contribution rates with close to 100% participation.

- *moving away from the provision of individual company pensions and towards simply making contributions to the NPSS*

This is a very real danger, given the implicit message many employers will take from a compulsory NPSS, that their pension obligation is limited to making a 3% contribution to NPSS. If this were to happen, it would undermine the CBI and Government's shared goal of encouraging high quality occupational provision tailored to the specific needs and circumstances of employers and the employees within a firm. In Australia only around 30% of employees contribute to their own pension arrangements in addition to the compulsory employer contribution.

There will be significant pressure to ratchet compulsion up significantly from 3%

20. CBI members are also concerned that the compulsory employer contribution to the NPSS will be ratcheted up over time. The target replacement rate based upon an annual 8% total contribution, is crucially dependent upon achieving a 3.5% real rate of return and an annual management charge of just 0.3%. If investment returns turn out to be lower than the 3.5% assumed by the Commission there would undoubtedly be pressure to increase contribution rates so as to maintain the target replacement rate. There is also some

concern that if the NPSS, or alternative models, are unable to deliver management charges at the proposed 0.3% as set out under the Pensions Commission's proposals, that a higher charge would also increase pressure for increased contributions in the same way.

21. It is also clear that trade unions will push for the compulsory employer contribution to be increased over time. The TUC and national unions continue to campaign for a compulsory employer contribution of 15% with employees making a 5% contribution. This pressure will undoubtedly remain, and employers are sceptical about the likelihood of such demands not being acted upon at some point in the future.
22. Finally, it is also important to recognise that the amount people are compelled to save may give them the impression that this is sufficient for their future, when in reality compulsion may only be at a level to provide a minimum safety net. This has been the case in Australia where Government is under pressure to raise the employer contribution from 9% to 15% to ensure the system delivered sufficient retirement benefits.

Compulsion would threaten the future erosion of tax reliefs to encourage pension provision and further undermine occupational provision

23. The CBI is also concerned that the introduction of employer compulsion will pave the way for the abolition of existing tax reliefs that encourage occupational provision. This is not a theoretical danger given that the Australian Government, following the introduction of compulsion in 1992, has begun taxing pension contributions that were previously tax-free.
24. The CBI believes that favourable tax treatment of pensions has played a crucial part in the success of occupational pension provision. If occupational pension saving is to grow in the future, an attractive package of tax reliefs is essential. Stability is crucial to the success of pension saving and both employers and employees need certainty that the basis on which they plan for the future will not be undermined by government policy changes or the removal of existing reliefs.

Compulsion does not command the necessary consensus amongst political parties and key interest groups to prove durable over the longer-term.

25. CBI members remain unconvinced that compulsion commands the necessary consensus amongst and within political parties and key interest groups to prove durable over the longer-term. As the Pensions Commission rightly highlighted in its first report, one of the most destabilising aspects of UK pensions policy has been the constant change in public policy towards both state and private pensions over the last twenty years.

Evidence from Australia suggests compulsion is not the panacea many in the UK believe it to be

26. Compulsion in Australian pensions was introduced partly in place of a wage rise at a time of high wage inflation. This was only possible because the initial drive for compulsion came from the Australian Trade Unions at federal level wage negotiations. Delivering wage increases in the form of pension contributions was attractive, as it restricted the impact on inflation. Similar wage restraint would not be possible in the UK; and the burden of paying contributions would fall heavier on UK firms than Australian ones, as

the UK trade unions could not (even if they wished to) deliver wage restraint in the private sector.

27. Even if wage restraint could be delivered, compulsory superannuation has not been sufficient to answer the problems of pension provision in Australia. It has been estimated that a contribution rate of around 18% is required for an adequate replacement rate to income in Australia – twice the current mandatory level. The possibility that compulsion has created a false sense of security among Australian citizens cannot be discounted
28. Household savings rates in Australia have fallen from nearly 10% in the mid 1970s to 0.5% in 2004. A paper by the Australian Reserve Bank suggests that compulsory superannuation may only have increased household saving by 2% in recent years, Research has shown that only high-income households tend to make further voluntary contributions to their schemes. The Reserve Bank of Australia study also suggests that up to a quarter of households who have raised pension savings since the introduction of compulsion may be “liquidity-constrained”; these groups would either increase credit or cut consumption in response to compulsion. Younger households in Australia have tended to take out further credit to maintain spending.
29. Increasing concerns have been heard in Australia about the costs and complexity of the compulsory pension system. In particular, studies have focussed on the lack of transparency over governance of the funds and the administrative costs charged, as well as the complexity of the regulations required to manage the funds. The final report of the Productivity Commission acknowledged that the Act was “voluminous, complex and in some respects overly prescriptive”. It recognised that, for the most part the prescription was necessary to ensure the functioning of the system, but the complexity of the system has posed several problems, including criticism of the continued costs of the compulsory system – these costs run at about 1.3% of the funds under administration. These large reductions in yield and consequent poor value for money would also have to be addressed in a system of contingent compulsion in the UK – especially given concerns around whether a 0.3% annual management charge is feasible.

SECTION 2: A ROBUST AUTO-ENROLMENT REGIME FOR BOTH EMPLOYERS AND EMPLOYEES CAN DELIVER INCREASED SAVINGS

Employers and employees should be automatically opted-in to pension schemes – but both have the choice to opt-out

30. CBI members strongly believe that employers should be automatically opted-in to pension schemes in the same way as the Pensions Commission has proposed for employees – but that both should be able to opt-out, if they choose to do so. The Pensions Commission has argued that an employee opt-out is vital to ensuring that an individual’s particular circumstances are taken into account in any decision to save for a pension. The CBI believes there should be equality of treatment and the same logic should apply to employers as applies to employees. Many companies will either not be able to afford a pension contribution, or will be in a position where a pension contribution could divert vital resources at a particular stage in a company’s life-cycle. Small employers will be particularly exposed to these scenarios.
31. However, the CBI recognises that any auto-enrolment system, must have real ‘bite’, so that as many employers as possible are encouraged to remain opted-into and contribute to a pension scheme – be it a company’s occupational scheme or NPSS. Having considered various options, CBI members believe there are ways of operating an auto-enrolment scheme that will deliver increased savings and encourage many ‘hard to reach’ companies to remain opted-into a pension scheme – without potentially undermining existing savings.
32. An illustration of the CBI’s proposed model for voluntary auto-enrolment is set out in Annex 1. In summary this proposed model would:

- **automatically opt-in both employers and employees into an existing occupational pension scheme or the NPSS, but with the option to opt-out for both**

The CBI believes that a significant number of firms will accept and support the new opt-in requirements for employees – particularly where they have existing pension arrangements. CBI members are convinced that overall take-up levels of private savings in the UK will increase significantly as a direct result of this policy.

This will be due to a combination of inertia and pressure from employees. But most significantly, there are many employers with existing schemes, but who currently have low participation rates. Amongst these schemes, the increase in participation rates will be extraordinary – and CBI members believe that few companies with existing schemes would choose to opt-out of an arrangement that has been open to all employees in the past – despite the obvious increase in costs.

- **require Government to work together with business and the trade unions to promote a national ‘salary sacrifice’ pensions campaign – “Pension Builder” – that would make employee and employer contributions more affordable**

CBI members believe that if the Government were to develop and promote a new ‘salary sacrifice’ toolkit – marketed as “Pension Builder” – new pensions

contributions would appear more affordable to many companies and their employees, further increasing the demand for pensions – particularly amongst low income individuals and SMEs.

- **introduce a new targeted incentive for small employers employing up to 250 employees, at an approximate annual cost of £500m. The Government could choose from two potential incentives:**
 - **the “Partnership Pension”** – providing matching Government contributions to boost pension saving among small firms and their employees
 - **a pension tax credit** – to incentivise and reduce the cost to small employers of making pension contributions;

In addition to “Pension Builder” and the likely increased demand from employees for an employer contribution, CBI members believe that SMEs will need additional support from Government to make pensions contributions more affordable. A targeted incentive for SMEs has the potential to increase significantly the number of small employers contributing to pensions – at an acceptable cost to the exchequer.

- **ensure that employers who choose to opt-out are required to explain this decision to their employees if there is demand**

Even with these incentives, the CBI recognises that some firms will still feel that an employer contribution is unaffordable, or unwanted by their employees. However, CBI members believe that an auto-enrolment scheme can be strengthened by requiring such employers to explain their decision to opt-out of a scheme to the workforce if there is demand from employees. This would encourage a positive and constructive dialogue in the workplace about pensions and could persuade many employers to revisit an initial decision to opt-out – increasing the number of employers contributing to a pension scheme yet further.

Government should develop and promote “Pension Builder” – a national ‘salary sacrifice’ pensions campaign...

33. In addition to running a new auto-enrolment scheme for employers and employees, the CBI believes that the Government should promote a national ‘salary sacrifice’ pension campaign, which we have called “Pension Builder”, to reduce the immediate cost burden on employers and employees, and encourage more employees to join NPSS or an existing occupational scheme.
34. The CBI believes that in order to achieve the highest possible take-up rate amongst employees from day one, the Government working together with business and trade unions should promote Pension Builder in a national campaign. This would provide a framework for employers and employees to ensure contributions were affordable and would ensure the highest possible take-up rate on A-day.
35. Salary sacrifice initiatives have worked well in voluntary pension systems elsewhere, where they have been heavily promoted and endorsed by Governments. The most notable success has been in the USA where the Save More Tomorrow (SMT) plan has helped

drive up participation and contribution rates amongst employees who were previously undersaving.

36. The idea is based on the simple premise that employees are far more likely to find a plan appealing where they make a commitment now to save more in the future. Its appeal to many employees lies in the fact that whilst part of the pay rise is diverted into pensions the employee will still also enjoy increased take-home pay where the pay rise is greater than the pension contribution.
37. Under this proposal, the Government would develop a toolkit for employers and employees which would set out that where an employer contributed 3% to NPSS (or existing pension arrangements) and the employee agreed to contribute 4%, 2% of the employee's contribution could be taken from a single annual pay rise. (The existing Government contribution of 1%, through tax relief, would combine to produce a total 8% contribution.) Whilst it would be for individual employers and employees to determine what proportion of a future wage rise would be diverted towards a pension contribution, we believe diverting 50% of future pay rises in this way would be suitable.
38. CBI members believe a national 'salary sacrifice' scheme – with a Government toolkit outlining to employers and employees how to establish such a framework would be valuable for employers of all sizes who wish to contribute to pensions but are concerned by the cost implications. The CBI would be willing to work together with Government and trade unions to develop a 'tool kit' for employers who wish to utilise a 'salary sacrifice' plan to help employees build up their retirement savings.

... and provide specific targeted incentives for SMEs...

39. The CBI believes that in addition to a new salary sacrifice toolkit, the Government should introduce a new, targeted, incentive for SMEs. It is clear that smaller employers will find it hardest to afford the cost of contributing to their employees' pensions and the Government should look at specific, cost-efficient, ways of encouraging small employers to contribute to pension schemes.
40. The CBI has developed two potential incentives for smaller employers. We believe that the Government should develop further one of these proposals and make it available to companies employing up to 250 employees on an ongoing basis. Initial indicative costings of these proposals – based on a 40% take-up rate among small employers – suggest that the total annual cost to the Exchequer would be approximately £500m. (Costings are set out in more detail in Annex 2). The specific incentives developed by the CBI are:

- the "partnership pension"; *and*
- a Pensions Tax Credit.

Partnership Pension

41. The CBI has developed proposals for a Partnership Pension (PP). Under the PP proposal, SME employers and employees acting in voluntary agreement would contribute 2% and 4% respectively of an individual's earnings into the NPSS. The Government would also contribute 2% via tax relief (1% tax relief and an additional 1% contribution) to make up the 8% total contribution. Such a scheme would represent a partnership between

Government and employers who would both contribute 2% to support the employee's pension saving, leading to a total 8% contribution.

42. The additional cost to Government of contributing an additional 1% (in addition to 1% tax relief) under the CBI's Partnership Pension proposals has been estimated at **£555 million per annum** by CBI staff. This assumes that 40% of employers employing less than 250 people participate and that take-up amongst employees within those companies is 80%.

Pension Tax Credit

43. An alternative incentive could be the introduction of an SME Pension Tax Credit, modelled on the Research and Development (R&D) Tax Credit. Under the R&D Tax Credit small companies receive a deduction of 150% on qualifying R&D work – or a tax refund if they are in a loss making position. The actual value of the tax credit will, of course, depend on the rate of corporation tax.
44. An SME Pension Tax Credit modelled on the R&D credit would also involve SMEs who do not currently contribute to pensions being given a tax credit for qualifying pension contributions. Employers would be given the option of whether to participate in the NPSS or not. If they decided to participate, they would be required to make a 3% contribution, with employees contributing 4% and the Government a further 1% through tax relief.
45. For example, if an SME with 10 employees decided to participate in the NPSS with all 10 employees opting-in to the scheme, the cost to the employer of making a 2% contribution for each employer would be £6,000 (assuming all 10 employees were paid £20,000 per annum). Under the SME Pension Tax Credit the company would be considered to have spent £9,000 on pension contributions and with a 19% rate of Corporation tax relief for smaller firms would receive a £1,710 credit which would reduce the real cost of pension contributions to £4,290 annum. This would reduce the cost of employer contributions from 3% to 2.15%.

Table 2: The value of the SME pension tax credit and actual employer contribution for individual SME firms

No. of participating employees	Cost of 3% contribution (£)	Value of tax credit (£)	Revised cost of 3% contribution (£)	Actual employer contribution (%)
8 employees	4,800	1,368	3,432	2.1
10 employees	6,000	1,710	4,290	2.1
20 employees	12,000	3,420	8,580	2.1
48 employees	28,800	8,208	20,592	2.1

** assumes 75% take-up and all employees are on around average earnings*

46. CBI staff estimates that the total cost to Government of introducing an SME Pension tax credit is **£475 million per annum**. This assumes an 80% employee take-up and a 40% employer take-up amongst firms with less than 250 employees.

... reinforced by a requirement to inform employees of any decision to opt-out and discuss in more detail possible employer contributions if there is demand

47. The CBI accepts that even with these incentives, there will be some employers who decide to opt-out of making a contribution to their employees' pensions. However, CBI members believe that more can be done to encourage these employers to contribute – without introducing compulsory employer contributions. In particular, the CBI has developed a new proposal which would promote dialogue about pensions – and an employer's choice whether to opt-in, or opt-out of a scheme.
48. In the instance where an employer decides to opt-out of a scheme, either NPSS or their existing pension scheme, there would be a requirement on the employer to inform all employees of their decision. If there were demand from employees for a further explanation over this decision, the employer would be required to explain their decision in further detail. For example, a right to request discussion on an employer's decision to opt-out of the NPSS could be triggered if 40% or more of employees ask for such a discussion. If this number of people want to opt in, their employer is likely to rethink their policy and seek to find ways of meeting their employee's desire for an employer pension contribution through, for example, reducing expenditure on other benefits.
49. Under this model, having considered what demand there is for pensions within in the workplace, employers – and employees – would be encouraged to consider whether the cost of contributing to a pension could be alleviated by using the Government's "Pensions Builder" initiative.
50. CBI members believe that such an arrangement would help to improve dialogue on pension issues within SME firms and help convince many SME employers, who had previously underestimated employee demand for a pension contribution, that it did make sense to contribute to the NPSS. Equally such a process could help explain to employees – if the demand is there – why an employer contribution is not viable at the present time.
51. **The CBI believes that introducing such a dialogue would make it much more difficult for employers to simply opt-out of NPSS and that there would be a significant increase in the number of employers who might initially decide to opt-out, remaining opted-in to NPSS or their existing scheme.**

**Human Resources Directorate
February 2006**

Annex Two

IMPACT OF CBI PROPOSALS ON CONTRIBUTION RATES COMPARED TO PENSIONS COMMISSION MODEL – AND COSTS TO GOVERNMENT

	Employer contribution	Employee contribution	Government contribution	Cost to Government
Scheme / Incentive				
National Pensions Savings Scheme	3	5 <i>(including Government 1% contribution through existing NI relief)</i>	0	0
Pension Builder	3	5 <ul style="list-style-type: none">• 2% actual• 2% foregone pay rise <i>(including Government 1% contribution through existing NI relief)</i>	0	0
Partnership Pension	2	5 <i>(including Government 1% contribution through existing NI relief)</i>	1	£555 million (pa)
Pensions Tax Credit <i>(approximate percentages)</i>	2.15	5 <i>(including Government 1% contribution through existing NI relief)</i>	0.85	£475 million (pa)
<p>Under the Pensions Tax Credit small companies would receive a tax deduction on the equivalent of 150% of their pensions contribution. Therefore for a total pension contribution of £6,000, the employer is assumed to have paid £9,000 and receives a £1,710 credit – reducing their total contribution to £4290</p>				

** costings for Partnership Pension and Pensions Tax Credit assume 40% take-up among all firms employing up to 250 employees.*