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Ending employer pension plans [1]

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Last week?s autumn statement was further proof that Britain?s pension arrangements are out of date, grossly inefficient and far too complicated. The system benefits politicians, bureaucrats and the pensions industry to the detriment of savers, pensioners and employers. It?s time to sever the link between employment and pension provision.

To refresh your memory, the Autumn statement called for further reductions in annual contribution limits and in the total lifetime limit. Like Lucy in the Peanuts comic strip who pulls away the football just as Charlie Brown is about to kick it, so the government moves the goalposts. No wonder the vast majority of people can?t be bothered to save for their retirement ? they know their hard-earned nest egg won?t be all it?s cracked up to be.

Yet again, the politicians couldn?t help mucking about with rules and regulations - it?s in their DNA to endlessly tinker and tweak. Bureaucrats have justified their existence by dreaming up new wrinkles that now need to be ironed out. And the pensions industry? Well, more complexity, more changes and more confusion can only mean more fees.

Way back when pensions were first created, the world of work was pretty straight-forward ? you signed up with Metal Bashers Ltd., slogged away for them for the next few decades and then collected a pension for a couple of years before you dropped dead. It made some crude sense for the employer to be the officially designated pension provider.

That world is long gone ? companies come and go while employees switch jobs far more often and work for far longer. Increased life expectancy will only heighten those trends as the modern world rewards flexibility, mobility and nimbleness.

Much of this well known but here?s one aspect that isn?t ? the insidious effect of employer-provided pensions on companies themselves. At a recent seminar of pension trustees, the chairman of trustees for one of the UK?s biggest retailers detailed the impact of the current system on that company and its scheme. Here?s just a sampling of the issues:

- The scheme still has a now-closed defined benefits section with some 1,300 active members, 4,000 deferred members (not retired but working somewhere else and with pension assets left behind) and 3,900 pensioners. Its new defined contribution section has nearly 2,000 actives and 2,100 deferreds. That?s a lot of people (about 13,300) to keep track of ? the majority of which are long gone. And it?s just going to get bigger as auto-enrolment kicks in.
- Among many other things, the company and trustees are now planning for the new auto-enrolment rules, mulling closing the DB scheme to future accrual or even buying out all the DB liabilities, restructuring the DC scheme and, of course, struggling to deal with the under-funded DB scheme. No shortage of consultant fees there.
- The chairman of the scheme last year attended five normal full-day trustee meetings, one ½ day meeting, three conference calls, nine special meetings on the DC scheme, two meetings with

advisers, two with fund managers and another 20 conferences, seminars, etc to keep abreast of developments. Who?s minding the shop?

- Then there?s the endless stream of either ill-informed or simply confused current and former employees seeking advice, guidance and information as they transfer in, transfer out, quit, retire, take leave, work abroad, marry, divorce, move from full-time to part-time and back again. The company is like a harried parent working fulltime but also charged with the well-being of its children except that it has over 13,000 of them and thousands more due imminently.

The old joke used to describe General Motors as a large pension scheme with a subsidiary that made cars. Some companies may be able to cope but many others certainly can?t. If a company is very good at making state-of-the-art widgets, there?s nothing to suggest its expertise extends to administering the government?s welfare system. (General Motors proved itself a failure at both.)

So here?s the big idea: cut employers right out of the pensions business altogether in favour of a simplified universal savings scheme ? a giant ISA, if you will. It would need some mandatory minimum contribution levels from both employers and employees with some restrictions on applying those savings to ensure adequate pension provision when the time comes.

The result would greatly increase transparency for savers because they will know exactly how much they?ve got. That same transparency will limit the scope for skullduggery by politicians, bureaucrats and pension professionals because any changes will immediately pop up in savers? retirement accounts as a bigger or smaller number.

And, for companies, this is probably the biggest opportunity to reduce the regulatory burden that everyone claims they?re in favour of.

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