P(r)ay for your pension — The end of the corporate sermon

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Abstract Recent Government proposals in the UK on securing occupational pensions introduce the concept of employee consultation over potential design changes. This paper comments on the greater need for employers to consult with their staff on changes to pension schemes, given the new pensions environment of industrial unrest, misunderstanding and mistrust stimulated by accelerated change in pensions and poor investment returns. It defines different levels of employer consultation and provides case studies of where it has been used with success to avoid industrial action, and increase employee appreciation and acceptance of changes taking place.

Keywords: *DWP Green Paper; trade unions; industrial action; research; employee consultation; pension scheme design; communication and feedback*

Introduction

Ten years ago, most people would have thought the idea that a pension transition in the UK could lead to industrial action ridiculous. However, after years of relative industrial relations calm in the UK, perhaps it is not surprising that the country is experiencing something of a reversal. While the Government tries to steer a steady path between commerce, social policy and regulatory interest, it is striving to respond to European employee legislation with conflicting demands from the Confederation of British Industry (CBI) and Trades Union Congress (TUC). Actions by firemen, tube train drivers and Rover car workers have all been signs of increasing industrial unrest. Add the changes to the pensions arena into this melting pot, and you have a heady brew.

This last year has witnessed direct action by employees not only on change to their own schemes but even the threat of action over the pension rights of future recruits. This is probably the most disconcerting feature, given that most industrial relations experts would hitherto have argued that existing members and employees usually have little concern over the terms and conditions of future employees. This is a new pension environment in which members will fight for rights they little understand, as yet. Moreover, perhaps due to slow pension change, the UK Department for Work and Pensions is proposing that, in the future, employers should consult over further pension evolution. It advocates in its Green Paper that companies should '... give employees the right to be consulted on changes to an employer's

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pension scheme to prevent firms changing or closing schemes without dialogue with employees'.¹

This idea was endorsed by Ruth Kelly, the Financial Secretary to the Treasury, at the Society of Pension Consultants conference last December. She said: 'The worst employers close schemes or cut contributions with little consultation or warning.' She added that an effective partnership between employers, employees, government and the pensions industry is needed to resolve the current problems.²

Of course, this idea cannot be seen in isolation. There has been an increasing tendency towards consultation, with existing legal requirements to consult on health and safety issues, redundancy and transfers and, in pensions, on member-nominated trustees. While the full implementation of the EU Information and Consultation Directive is some time off in the UK, and the Department of Trade and Industry (DTI) is consulting all stakeholders on how it should be implemented here, its thrust cannot be avoided. It will probably cause change in both communication and industrial relations, as originally anticipated by Vredling and the other social reformers in the late 1970s.³

Working together

Perhaps this aspect of the Green Paper is rather tardy. In many major organisations, the pension horse has already bolted and the government would be hard pressed to try battening the stable door now. Yet the Green Paper and its taxation sister predict a huge volume of potential change in pension schemes yet to come.

Clearly, the intention was to stem the flow of conversion from defined benefit (DB) to defined contribution (DC), but what seems more important is to regain the trust of employees in their pension

arrangements and their security, which have been doubly affected by poor communication and draconian employer action in many instances. In the YouGov's Work Retirements and Pensions Index study carried out at the end of 2002, 59 per cent of respondents said they did not trust the Government, their pension provider or their employer.⁴ Trust is fundamental to good employee relationships: 'Any programme of change brings about issues of trust. Where there is not a good relationship between those introducing change, and those affected by it, there is a greater chance of disbelief and resistance.'⁵ It is now high time that we worked together to improve ill-informed press coverage and public perception of occupational pensions. It is time we took a lead in the increasingly important area of individual wealth creation for career and retirement.

Pensions are frequently front-page news now in the UK, not least due to worsening investment returns. While many have hoped that increasing public awareness would improve pensions knowledge, the research that we continually conduct on behalf of our clients still demonstrates a very weak understanding of how pensions operate. Not only that, but the 'UK Financial Awareness Report,' a study carried out by Royal Liver Assurance in November 2002, revealed that more than 50 per cent of all respondents were not worried about having a decent standard of living during retirement.⁶ Unfortunately, ignorance often creates polarisation of viewpoints and it is all too easy for an active employee representative (not only an active trade unionist) to create employee unrest. Of the few studies done around the organisational dynamics of gossip, one of the most telling was carried out by Anders Vidners, a professor at Stockholm University. He showed that in large organisations one

Figure 1: Different levels of employer consultation

person could have a ‘meaningful dialogue’ with 15 other people during the course of an ordinary working day, leading gossip to spread at an exponential rate. ‘Letting people know what is going on stops gossip dead in its tracks.’⁷ So how are we going to overcome this increasing problem?

When is an employer consulting?

First, it is useful to define what is meant by consultation.

Definition 1

An employer defines what they want to achieve, provides advance warning of their intentions, gains involvement of stakeholders in the implementation and communicates the change effectively, and perhaps sympathetically.

Definition 2

An employer actively involves stakeholders in the transition process, does not consult over design and implementation issues, but encourages active dialogue about the change and how any outcomes may be best managed.

Definition 3

An employer approaches key stakeholders and/or employees about

their genuine desire to create an acceptable pension position and goes about the best practicable means to ensure the new design, implementation and communication are actively discussed before finally committing to the change.

Clearly, most employers would be reluctant to move to definition 3 or pension or reward issues in general, which probably equates to best practice in consultation. Given the rise in power of the Finance Director in most modern organisations and the worsening economic climate, true consultation over pension arrangements (or any other element of reward) is a daunting prospect from the perspective of raised expectations. However, the author is a firm believer that most organisations can and should design an information and consultation framework that fits their aims and structure to improve genuinely the understanding and acceptance by members and employees of any significant pension (or other) change. The new move to consultation can be realised if organisations plan their communication strategically.

Case study 1

A major employer with a highly dispersed workforce already had pockets of industrial unrest when it was faced

with open threats of strikes over the introduction of revised DC arrangements for new joiners alone. While many may share concerns about the creation of a three-tier pension society in the UK (state only, those with DB benefits on traditional scales, and those with the new 'reduced' DC scales), it seemed odd that this could lead to industrial action.

An initial investigation revealed that 50 per cent of current employees were failing to participate in existing DB and DC arrangements and, more importantly, the trade unions had exerted little effort to encourage members to join. A strategy was developed visibly to encourage non-members to reconsider joining, not least a specific group who were now unable to join as they had passed age 40. The unions were informed of the group's intentions, and manager and employee packs were issued regarding this pensions reminder and amnesty exercise.

The external media, trade press and (most importantly) the group's clients were told of the group's intentions. The group declared that it had never sought to withdraw the pensions opportunity for any category of member, past or present, and had no objection to anybody participating in the pension schemes offered, now or in the future. At the same time, the group emphasised its decision to introduce a revised DC arrangement group-wide for new joiners on the basis of balanced risk, manageability, harmonisation and employee mobility.

While the take-up of this opportunity was not complete, it was sufficient to make the point to employees and their trade unions that the group was not shirking its responsibilities. It also re-adjusted the environment for change, by both raising the profile of pensions and informing people directly that the

group had no alternative to a revised DC pension scheme if it was to remain competitive in its market.

The group is about to roll out its recruitment literature and technology for its new pension scheme. It has spent considerable effort on educating its dispersed HR community and line management and it has impressed upon everybody the importance of pensions as a component in its aim to be an 'employer of choice'.

To date, although there has been considerable positioning by unions in the press (and locally in certain hotbeds) there has not been any industrial action.

Case study 2

The Principal Civil Service Pension Scheme (PCSPS) in the UK (now Civil Service Pensions or CSP) wanted a communication strategy to launch their pension fund's new DB and DC sections. The strategy also had to be flexible enough to be adapted to each of the 230 employers, with a total of 500,000 members. It was particularly challenging because of the different operational capabilities of the departments; some had high-tech communications, some had very basic facilities, but everyone had to get the same information at the same time. The sheer size and disparate nature of the UK civil service meant that full consultation would have been impossible. However, it was still plausible to involve major stakeholders in the communication process to ensure their commitment and understanding of the issues.

A task force was formed with representatives from all the major departments of the civil service. They were consulted in a series of regular meetings and their comments were taken into consideration when designing the communication strategy. Every

department, executive agency and non-departmental public body (NDPB) was consulted through a comprehensive audit to ensure that communications would be conducted through media that was available to everyone. The communications were rolled out through a drip-feed approach to educate members about changes and they were given the opportunity to feed back their comments.

This consultation led to greater employer investment in the changed scheme, greater member participation and an award for scheme of the year due to the increased choices available to members. The stakeholders now recognise where there are gaps in communication and understanding, and work is being undertaken to close these.

Case study 3

A major pharmaceutical firm wanted a radical approach with one of the first attempts to establish a 'nursery' scheme for new joiners under age 45 in the UK. The organisation was particularly keen to reinforce the pensions 'handcuff' on members above age 45 and encourage high levels of saving towards a quality retirement.

Talking People suggested that the company first research the socio-economic context of why it should change its pension arrangements. Having concluded the research, the concepts were floated with employees through a hard-copy consultation document, and employees were invited to provide feedback on the design, communication, timetable and overall objectives through a feedback form as well as a pensions hotline. The Pensions Director was surprised that the consultation document turned out to be a 'top seller': 25 per cent of the employees ordered a copy and 10 per cent responded through the feedback routes.

To ensure that the company really

understood this feedback, it engaged its employees' pension representatives in 'subject matter days' and focus groups to explore the desires of the company and potential concerns of members. This was a brave move. Many of the pension representatives and the higher-level trustees were also trade unionists. The company engaged in genuine discussion with the established trade unions at a local level, and within the space of three months the communication programme rolled out. Ten years in advance of the modern vogue for pension education, members were encouraged to save towards a definite pension target.

The consultation programme revealed concerns about contribution levels and the manner in which state integration was being replaced. These were dealt with through the communication programme and through a mid-level of contribution for employees, with pro rata employer matching. Tactically, members and their representatives felt they were involved and, in spite of the obvious challenge to the trade unions in going to employees directly, they too appreciated the employer's responsiveness to employees' interests, and cooperated fully.

Perhaps the most outstanding feature was that, while more time was spent on planning and consultation, the implementation was quick. Furthermore, because of the consultation, members rapidly accepted the redefined deal and many commented that they always knew the scheme would look that way.

The employer went on to win over ten major national awards. It also created an environment for the introduction of flexible benefits and further change to the initial, perhaps too generous, pension terms. Not a single working day was ever lost through all these transitions and members enjoyed their modern pension arrangement.

Figure 2: A comprehensive method to create a climate for acceptance

Conclusions

Employers will probably never be keen to consult employees openly about reward, and even less so on pensions without defined parameters — especially when ministers, the CBI and the TUC all agree that there is a fundamental lack of understanding of pensions by the UK working population. Yet it appears that the genuine involvement of scheme members and stakeholders in the implementation and communication of a pension solution can have a marked impact on employee relations.

Recent research by Talking People has confirmed the absence of any direct link between pensions, recruitment and retention.⁸ Given the high levels of expenditure on pensions, the industry needs to use them as a motivational platform for employees. This time is not far away, as anecdotal evidence from focus groups⁹ indicates that members are taking a much stronger interest in their pension when considering whether to join or leave an employer and want to know about its long-term security. It is therefore not surprising that an organisation like the civil service has won so many awards recently as it offers all members a choice between DB and DC throughout their careers.

A degree of 'consultation,' as defined by definition 2 (verging towards definition 3), will aid understanding and soften the impact of any pension change. Ironically, DB schemes (perhaps with

some career-revalued earnings design or equivalent built in) may make a comeback, and indeed the green shoots of this revival are already showing.¹⁰ Above all, though, if we are to avoid over-prescriptive legislation and pitched battles over past, present and future pension rights, employers should think about how they can incorporate genuine consultation and dialogue into their pension change strategy.

This need not be either cumbersome or ephemeral. The author strongly believes that for the growing populations with IT access, technology may offer considerable scope for employers to understand the true needs of employees, and their responses to new pension proposals, eg through the use of real time, on-line research. Oddly enough, as demonstrated by case study 3, genuine dialogue about the rationale behind a pension scheme may have greater educational value than information about pension build-up rates and other factual issues.

Furthermore, whether pensions are in or out of forthcoming Transfer of Undertakings (Protection of Employment) Regulations 1981 (TUPE), protecting transfer of terms and conditions to a new employer is still under debate. If the Government requires full consultation over pension change it will present a tougher challenge to an acquiring or lead merger organisation than TUPE reform itself. Indeed, it

could be an 'own goal' with the Government's desire for increased private finance initiatives (PFI) in the public sector.

If we are to enjoy a pension climate in the UK which offers a fair balance of responsibilities and risks between state, employers and individuals, we must strive to achieve this through active consultation. The author agrees with the Green Paper — 'dialogue' is a must. If employers genuinely seek employee understanding, both of the need for change, and of how they can optimise their participation, equilibrium will be achieved.

When a company wants to introduce change (whether to a pension scheme or elsewhere), it would do well to think hard about how it is going to establish genuine acceptance for it; it

might just avoid future battles over employee rights.

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