

Stephen Beagent Associates' Newsletter

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The Pension Crisis – The Facts

Much has been written about the UK pension crisis and many writers are warning of a catastrophe that could be as big as global warming and terrorism, but is this an extreme view or is it reality?

It is estimated that around 12 million people may be under saving for their pensions by varying degrees and for the majority of people their pension funds will only provide a modest contribution to their standard of living in retirement, according to the First Report of the Pensions Commission. Additionally, depending on which survey you believe, Britain's biggest companies are grappling with a £50bn-100bn shortfall in their pension schemes and an estimated 65,000 workers have seen their pensions destroyed by pension scheme wind-ups. It is no surprise, therefore, that people are concerned.

In the past, the UK pensions system appeared to work well, because one of the least generous state pension systems in the developed world was complemented by the most developed system of voluntary private funded pensions. So how has this situation arisen? A number of reasons have brought us to this point, not least the changing demographics of the population: the increase in life expectancy and declining birth rates, meaning smaller future generations to support those in retirement. Successive Government policies have also played their part, including the cutting of the proportion of pensioner income paid by the state and various short-sighted policies towards private pension funds: the Conservatives were responsible for allowing employers to take contribution holidays from their pension funds when the stock markets were at their peak in the 80s, only for companies to see huge deficits appear when the stock markets subsequently dived; and Gordon Brown has also cost pension funds an estimated £5bn per year, when he removed the ability for pension funds to claim tax relief on dividends. Other factors to affect the state of play today include: the fluctuating stock markets, the lack of trust in pension funds due to the pensions mis-selling scandals of the 1990s and the increase in life expectancy, meaning many funds have to provide payments for longer than originally forecasted as the number of dependents also increases.

So what does the future hold? By 2040, it is estimated that 25% of the population will be over pensionable age. If there is no revision of the system, it is estimated that pensioners would suffer a 30% drop in relative incomes. Furthermore, companies with pension deficits are now under increasing pressure to divert money from their profits into pension funds instead of to shareholders, thus putting pressure on share prices and if share prices fall it damages the financial health of pension funds and so the downward spiral continues. And more worryingly, there appears to be a complete lack of awareness by the general public of the pensions time bomb that is awaiting them when they retire and as a result, Britons are saving a smaller proportion of their income than nearly any other major economy.

So what needs to be done? Whatever is decided many people will find it a bitter pill to swallow, but ideas being considered include: Taxes or national insurance contributions devoted to pensions must rise; savings must rise; average retirement age must rise. Moreover, the Government will need to also overcome the sense of confusion and distrust that the general public has for the pensions industry, in order to ensure people begin to save properly for their retirement. The pensions system must also encompass the needs of women, many of whom are penalised for taking time out of work to raise children and subsequently are unable to catch-up to fulfil their future pension needs, both private and state.

We can expect specific recommendations from the Pensions Commission in the autumn; these will be put to the Government to decide the best course of action. As expected, it has become one of the many battlegrounds for the election campaign, with the Conservatives accusing Labour of planning to make it compulsory for people to contribute to a private pension scheme. This would be the equivalent of an extra tax for most people. However, there is a certain irony in that those making the final decisions regarding the future of pensions, irrespective of party, are generally cushioned from the effects being felt by the majority of people, since MPs are guaranteed a decent pension fund when they come to retire.



Employee Benefits

Over the last decade the UK has seen a significant shift in the attitudes of employees as to what they are looking to gain from their workplace and careers. Gone are the days of long hours to ensure that all important move up the career ladder, people are increasingly looking for a work-life balance. With staff shortages and high turnover, employers are finally realising that in order to keep their best staff and motivate them, they need to offer a benefits package that will suit the changing needs of their employees, whether they are single or married with children and provide the flexibility their lifestyles demand. It is not just about offering the standard benefits, such as health care, pensions, bonuses and car benefits etc, which whilst good, are not necessarily about offering the employee work flexibility. Offering flexible working arrangements can be a very a big motivator, however, to ensure you get the most from your benefits it is important that you tailor it to your employees needs. It is no good offering a family friendly package when all your staff are single and vice versa. A good package will need some investment and research and if it is done properly you should see a good return.

Of the many benefits which can be offered beyond those that are considered the norm, sabbaticals are becoming increasingly popular for members of staff that have worked for a certain period of time for a particular employer. Holiday benefits are also a popular choice, employees can either buy or sell back unused holiday according to their preference. This is seen by many as a good way of encouraging a better work/life balance amongst staff. Retail vouchers can also be popular for larger organisations that are able to negotiate significant discounts with the high street shops and supermarkets. Some companies are going a step further and employing a lifestyle and concierge service. Employees have access to a dedicated manager, who can organise anything from the sourcing of a good restaurant, to organising their dry cleaning, to finding a plumber.

Staff benefits are usually treated as benefits in kind and are taxed as employment income as a result; however, there are tax-relief benefits which tend to be offered via a salary sacrifice scheme in return for a benefit provided by the employer. Tax relief is available on a variety of items, such as season ticket loans, pensions related financial advice, staff parties and annual celebrations, corporate gifts and long service awards. From 6th April, employees will also be able to save up to £1066 a year on child care through a salary sacrifice scheme using childcare vouchers, which can be redeemed with any registered provider in the UK.

Whatever you decide, if you wish to provide employee benefits it has to be done properly; it should be well researched and costed. Where appropriate, professional advice should be sought, otherwise, it will not be worth the paper it is written on, rather than motivating staff it could end up alienating them instead.

Business and the Environment

The Kyoto accord, which requires countries to cut emissions of carbon dioxide and other greenhouse gases, came into force in February. In all 141 countries including the UK, accounting for 55% of greenhouse gas emissions, have signed agreeing to cut these emissions by 5.2% by 2012. Unfortunately, one of the biggest polluters, the US, has refused to ratify the treaty, weakening the treaty from the start. This is particularly worrying when you consider the recent news that carbon dioxide emissions have reached a new high, according to US researchers, who run the most accurate laboratory recording such data.

According to the CBI, UK businesses are already playing their part towards the Kyoto targets on a macro level. Technologies ranging from Hybrid vehicles, to clean coal technology, to the next generation of renewable energy sources are being utilised. However, there has been some conflict between the Government and businesses, for example, when the Environment Agency named and shamed companies for their environmental shortcomings last year, the CBI responded saying that 'poor design and heavy-handed enforcement' of environmental regulations was costing British business £4bn a year. Yet some of the negative consequences for businesses if they do not help to cut carbon dioxide emissions include: increased insurance premiums as a result of increased insurance claims triggered by climate change and the increased use of congestion charges to curtail the number of vehicles on the road to name but a few.

So can businesses and employees do anything to help the environment on a smaller scale? Below are some suggestions:

- **Encourage workers to work from home where possible through the use of broadband connection.**
- **Switch off all computer monitors and screens in the office when not in use.**
An electrical item in standby mode uses almost as much energy as when it is on.
- **Appoint an employee to keep an eye on environment issues relating to businesses or to check the environment agency website on a regular basis.**
- **Use mugs as opposed to disposable cups for tea and coffee. If we all did this all the cups we would have thrown away would circle the world 14 times.**
- **Encourage car sharing schemes amongst employees.**
- **Use a paper-recycling scheme. Your office stationer should be able to help.**
- **Before you print - think - do you really need to print it off?**
- **If you do print and it is for internal use, use the other side of paper that is in the recycling box.**
- **Recycle your inkjet cartridges.**
- **Recycle your mobile phones via charities such as Oxfam and Tommy's, the baby charity.**

To ensure the success of good environment practices, organisations need to involve employees. Any policies should be clearly communicated, outlining how to do it and the reasons for doing it, to ensure everyone buys in.

Most experts agree that climate change is no longer a matter for debate, it's a fact and Government, businesses and individuals should all be working together to help minimise this problem.

For more information: www.environment-agency.gov.uk or www.envirowise.gov.uk



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The UK Skills Shortage

The UK is facing a skills shortage. With almost near full employment there are still many positions which remain unfilled and many organisations are having difficulties getting the people they want; a lack of specialist skills and the poor quality of the applicants were cited as reasons. Sectors which are particularly hard hit include: IT, finance, construction and engineering. The worst affected being the IT industry, with up to one million more skilled IT professionals needed within the next 5 years. It is in these skills shortage areas that suitable candidates will be able to be more selective and demand the pay and packages to suit their needs, as a result, pay rates could potentially accelerate. Those in the strongest position are those willing to become contractors, particularly those with specialist skills. However, some people perceive that hiring contractors actuallyacerbates the problem, because it does not solve the future skills shortage. The solution would be to train existing staff for the longer term, utilising the staff already in place at a reduced cost, rather than temporarily employing staff with specialist skills at higher rates of pay.

The root of this problem probably occurred 10 years ago when companies neglected to invest in training, as the UK came out of recession. Additionally, since then, more and more school leavers are being encouraged to go to university and as a result the jobs that were originally intended for school leavers are being left unfilled. Furthermore, with the rise of the Internet, jobs are advertised and filled so much quicker than ever before and today's workers also tend to stay for much shorter periods of time.

A Skills for Business survey of 13,000 employers showed that over 60% are struggling to find the people with the right skills to do the job. Smaller businesses are being hit harder by the skills shortage with 39% affected, compared with 18% of larger companies. The impact of skills shortages on employers and their employees include: increased workloads, customer service difficulties, loss of new business and delayed new products. As a result, employers are learning to deal with recruitment and retention in new ways. They have increased recruitment and advertising spend, expanded channels of recruitment and increased salaries, according to the National Employers Skills Survey 2003 Key Findings.

Certainly in the accountancy sector there is a scarcity of good graduate accountants and candidates to fill specialist roles such as payroll and credit controllers, the latter being harder to find as they tend to stay loyal to their employers for longer periods of time. There is also a demand for accountants with the latest IT, business management, audit and Sarbanes-Oxley skills.

The UK is the world's fourth largest economy, however, this could change unless the skills gap shortage is addressed. It is probably the lack of specialist skills, as opposed to skilled professionals in certain areas, which could have a detrimental affect on the economy, slowing economic growth and missing out on new business opportunities, which other countries may be better placed to exploit.

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