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Pension scheme debate

- New legislation leaves employers short
- Staff confused over how much to pay

SHERYL MOORE

EMPLOYERS are being urged to check the details of their pension schemes to deal with the confusion surrounding their liability for maternity leave.

Recent moves to clarify the position on employers' liability for maternity leave contributions beyond the statutory 39 weeks have failed to stem confusion.

Employers concerned

Steve Southern, specialist pensions lawyer at law firm Hammonds, says since new discrimination legislation was implemented earlier this year it has prompted fears that women who have a due date on or after October 5 2008 could be entitled to full pension benefits during the whole of their maternity leave.

He said: "This issue remains a real concern for employers who are worried that they might be liable to pay pensions contributions or meet the cost of providing final salary pension benefits for the whole additional maternity leave period and, as a result, could face increased pension costs.

"In reality, employers can be assured that the recent legislation has not changed existing social security rules regarding pension scheme rights during additional maternity leave.

"HMRC guidance has also sought to spell out that employers need not continue to pay occupational pensions contributions during unpaid additional maternity leave or to count this type of leave as reckonable service for the purposes of contributions."

» **READ THE SMALL PRINT** Employers and staff are urged to read all the documentation provided with their pension schemes and keep up to date with new legislation

Legislation challenged

However Mark Poulston, pensions partner at DWF, says that while it is true that current legislation does not require employers to pay pensions contributions after the first 39 weeks of maternity leave, there is an argument that the existing legislation may be open to challenge on the grounds that it is inadequate and potentially discriminatory.

He said: "If the government goes ahead with proposals to extend paid leave to 52 weeks, employers will have to pay pension contributions for the full period anyway.

"Employers should also check the small print in their own pension schemes and company maternity policy documents to be sure of their obligations.

"They may find they are committed to making a more generous provision than the minimum laid down by the state."

Confusing contributions

Neeta Laing, head of employment law at Lewis Hymanson Small says an employer's pension contribution is a grey area.

The general situation is that if you're on a salary related scheme you should build up your pension as normal while you are on maternity leave.

Your contributions will be calculated on the maternity pay you receive from your employer.

Your length of service in the pension scheme will not be affected by your maternity or parental leave.

She said: "If you're in a money purchase scheme, where you and your employer put money into an individual fund, your employer should continue to pay the same contributions.

"However, if you pay a reduced contribution based on your maternity pay then inevitably your pension fund will be smaller.

"If you take unpaid parental leave then the time before and after your leave is counted as continual service, but neither you nor your employer will pay into your pension.

"Your parental leave may not be counted when your length of service is used to work out your pension, but this depends on the generosity of individual employers."

Seek advice

Andrew Cawley, KPMG's head of pensions in the north, added: "Employers will need certainty from regulators and their advisers on this and other issues impacting pension costs given the economic climate and the re-emergence of rising pension scheme deficits."

What does the future hold for company pensions?

ANDREW CAWLEY

AFTER the financial turmoil of recent months, and subsequent economic downturn, most companies in the north west will have seen their defined benefit pension scheme deficits rise.

But the extent will depend on their exposure to the equities market compared to bonds where some commentators have suggested that rising yields should have improved the situation, reducing liabilities.

The problem that many businesses may face is that nervous pension trustees, rattled by rising deficits and economic gloom may demand more cash be pumped into pension schemes - precisely at the time when cash is hard to come by.

So what is the wider impact of the credit crunch for pensions?

The 'sub prime' crisis in the US triggered a financial tsunami which engulfed the global money markets.

Unprecedented stock market falls and extreme volatility has damaged both UK companies and their pension schemes.

And recession is arriving, which raises questions about whether either financial liquidity or confidence is being restored.

So businesses are facing the challenges of an economy in recession with credit in short supply and costly.

But what will this mean for north west employers with defined benefit pension schemes?

First, the value of pension scheme assets will have been damaged by the dramatic falls in global stock markets – we have seen 25 per cent falls in some markets.

Many UK pension schemes will have had more than half their assets invested in equities.

The recovery during October in the UK stock market will, however, have partly restored pension funding.

Second, many pension scheme liabilities will be expecting their liabilities to rise on the back of improving life expectancy for scheme members.

Andrew Cawley of KPMG

Third, on the positive side, for pension schemes and the wider economy the medium term outlook for inflation appears to be improving as commodity, energy and consumer prices subside.

So the critical issue for most north west companies will be in financing larger pension scheme deficits at a time when cash resources are extremely tight and when banking lending is restricted.

At the same time, trustees of defined benefit schemes are encouraged by the Pensions Regulator and their advisers to monitor the strength of the employer sponsoring the pension scheme.

Trustees taking short term action to reduce risk and increasing the cash funding requirements from sponsoring employers will present real difficulties for many companies.

This is the likely repercussion of the credit crunch and economic downturn, and this is why north west companies will increasingly take an active approach to managing their pension scheme risk and liabilities.

Managing cash resources in this recession will also mean companies taking decisive action in controlling pension costs, in negotiating with trustees and in balancing the needs of all stakeholders in the business.

» Andrew Cawley leads KPMG's pensions practice in the north.

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Advisers to employers

KPMG's Pensions practice in the North West

KPMG is the new force in the pensions world. We are a commercially focussed adviser, acting for employers who sponsor pension schemes.

The current economic environment undoubtedly presents a huge challenge – but also offers opportunities for employers with defined benefit pension schemes.

Sponsoring companies need our business-driven analysis of, and progressive approach to, managing pension risk and pension liabilities. KPMG offers something much more than orthodox pensions and actuarial thinking.

We are able to deliver not only specialist technical knowledge, but progressive advice based on a thorough understanding of your business needs.

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