OCCUPATIONAL PENSION SCHEMES AND HUMAN RESOURCE MANAGEMENT:

SOME SURVEY EVIDENCE

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Definitions of "Human Resource Management" (HRM) have been both numerous and multi-faceted, and various classifications have been arranged to try to capture the essence of HRM (Guest, 1987, 1989; Storey, 1992; Storey and Sisson 1993 are but a few examples). Although there is not one rigid "HRM position", it does appear that it is characterised by certain tendencies in contemporary ways of looking at employer-employee relations. For example, instead of earlier emphases in industrial relations/personnel management thinking on short-term time frames, and ad hoc planning perspectives, HRM is claimed to focus upon longer-term, more strategic, considerations.

Moreover, in concentrating upon a "core" of employees, HRM-oriented managers are essaying a unitarist, high trust, approach to those employees, to the exclusion of the others who are deemed to be "peripheral" to the organisation. Attempts are made to incorporate the core group into the fabric of the firm, by encouraging commitment, and fostering loyalty. Overarching these HRM approaches, some innovative means have been applied by managers to achieve the age-old objective of control over employees.

This paper shows how pensions policy has resonance with HRM because not only do arrangements for providing retirement income have long-term effects but they also carry significant strategic implications involving both cost and choice. It will be illustrated how pensions reflect both the signaling and managing aspects of remuneration structures. In addition, various attitudes towards pension arrangements are identified which is consistent with the normative nature of HRM, emphasising as it does *approach*, rather than *technique*.

The type of pension plan now thought appropriate reflects the more strategically aware approach associated with HRM. Changing employment patterns involving, for example, more frequent job moves and breaks in employment, call for schemes designed both to be portable and personal. This does not mean relying entirely upon employee contributions, but allowing contributions to be made by different employers and at different levels, reflecting job moves and changes in individual circumstances. Such plans are called "money purchase" or defined contribution (DC), and provide a pension that is dependent both on the annuity rates ruling at the time of retirement (usually based on actuarial assumptions), and the value of the investment "pot" into which contributions have been made (which will be a function of the performance of the securities markets). The more traditional (in the sense of the rise of occupational-based schemes since the 1940s), and still widely-used, type of pension plan is known as defined benefit (DB) or "final salary". This type of plan calculates pension in relation to salary at the point of retiral, and is based upon the number of years in "pensionable service" (eg, a maximum two-thirds of final salary pension assuming forty years of service - known as a "40/60ths" arrangement). Money purchase plans (offered by pension providers directly to employees with employers making contributions to what are essentially "private" plans or, through so-called "group schemes" set up on behalf of employees by employers), are likely to be the desired choice for employers setting up new schemes, and for others attempting a re-design.

And yet evidence continues to emerge (for example, Terry and White, 1997:174) that employers remain convinced of the merits of traditional pension plans that are neither flexible nor open to customization. Rather, in nature they are based on a "promise" of guaranteeing a pension of a certain percentage of some future, as yet unknown, salary level reached upon reaching retirement age, and in structure driven by contributions levels dictated by a fixed percentage of salary which is applied to all members. Employers appear to reconcile this apparent contradiction either by claiming that it is consistent with a paternalistic streak in contracting with employers, or suggesting that it is demanded by the skills market. Therefore, just as seniority based pay scales could be said to be outdated, so do pension schemes, made available on an aggregate basis, appear to contradict the current preoccupation with such aspects of merit-based differential treatment of employees.

The potential for reducing employer contributions offered by DC schemes (because there is defined employer commitment - the *contribution* - rather than the more open "promise" to provide a *benefit*) has prompted some employers to switch, but the policy to substitute money purchase for final salary is not as yet one that has been universally adopted. There is contemporary evidence showing an enduring loyalty to final salary types of schemes. This is despite the apparent compatibility of the characteristics of money purchase and HRM which recognises the transitory relationships between employees and any particular firm (Kruse, 1995: 218, for US experience. Casey, 1993:10, for the UK).

Nonetheless, the consonance between certain types of pension schemes and HRM is enduring. Our postal survey of employers, conducted in late 1995 (Terry and White, 1997), highlighted several characteristics of traditional schemes that are capable of spanning both the so called "hard" and "soft" versions of HRM, implicit in core and periphery strategies. For example, the existence of a pension fund, a prerequisite for final salary schemes, provides a financial resource available to employers to ease the process by which employees can be persuaded to take early retirement. Provided the fund is in a state where the assets exceed the liabilities (known as "over-funded"), it is open to the trustees to enhance individuals' pensionable service, so that employees can enjoy a level of pension now that they would otherwise not have received for several years in the future. To this extent, the hard (business process) strategy of dispensing with "unwanted" employees is carried-out with an apparently soft (paternalistic) mechanism. Such financial leverage would not be available under money purchase schemes. The only way in which employers with DC schemes could attempt to replicate enhancement would be by providing cash directly to each individuals' investment pot. This would have the effect of increasing the costs of business restructuring, whereas, under final salary, the costs of early retirement would be met by the scheme, not the company.[1]

Research Methods

Prior to the research whose findings we report here, we conducted a postal survey of Scotland's leading 500 companies in the autumn of 1995. (Terry and White, 1997). We received usable replies from 82 of the companies, a response rate of 16%. One major finding related to overall funding rates, as is shown in Table 1 below.

TABLE 1 FUNDING RATES AND SCHEME TYPES

	Employee Average	**Employer Average**	**Average Total Funding Rate**
All Schemes (n=82)	3.7% of current salary	9.8% of current salaries	13.5%
Contributory Schemes (n=68)	4.4% of current salary	8.7% of current salaries	13.1%
Final Salary (n=55)	4.6% of current salary	9.6% of current salaries	14.2%
Money Purchase (n=13)	4.2% of current salary	5.6% of current salaries	9.8%
Non-Contributory Schemes (n=14)	0% of current salary	13.0% of current salaries	13.0%
Final Salary (n=9)	0% of current salary	14.8% of current salaries	14.8%
Money Purchase (n=5)	0% of current salary	7.3% of current salaries	7.3%

Table 1 indicates that the average employee funding rate over all the schemes covered by the survey was 3.7% of salary, and was within the range 0% to 6.5%. The employee contribution rate in the contributory schemes was 4.4%, and was within the range 1.8% to 6.5%. The mode rate of 5% was reported in nearly half of the contributory cases. The survey results show only small differences in employee funding rates across the different types of schemes, although final salary is the most expensive from the employees' viewpoint. Moreover, over half of the companies from the business and finance sector, included in the survey, had non-contributory schemes, but it was the case in only a tiny proportion (2/22) of the industrial firms surveyed. Such schemes, requiring no employee contribution, were justified by our survey respondents by using various explanations: history; or sector expectations or "norms"; or "extended paternalism".

The average employer funding rate over all of the schemes covered by the survey was 9.8%, and was within the range 0% to 23%. This means that the average total contribution rate for all schemes was 13.5% (on average, 3.7% from employees, and 9.8% from employers). Total contributions cost for contributory schemes was on average almost identical to that for non-contributory schemes (all employer contributions) at 13.1% and 13% respectively. However, taking those non-contributory schemes operated on a final salary basis, the average funding rate was found to be 14.8%. Interestingly, all seven firms in the business and finance sector were included here, and this sector displayed the highest funding rates of 20% and 23%. For the non-contributory schemes operated on a money purchase basis, the average funding rate (all employer contributions) was 7.3%. This compares with an average employer funding level for contributory money purchase schemes in the survey of 5.6%. This suggests that the average overall funding rate is lower for money purchase schemes at 8.5%, as compared with all final salary arrangements in the survey at 14.5%. Indeed, the employer rate under non-contributory schemes rises on average by 1.7% for money purchase, and by 5.2% for final salary. However, the difference was on average double (7% and 14.8%) as between non-contributory money purchase and non-contributory final salary schemes. The "benefit", therefore, to employees of the employers' contributions, in terms of a percentage of salary, is much more marked under final salary than with money purchase, and is at its highest for non-contributory, final salary arrangements. This provides evidence of the "cost" of the guarantee involved in final salary schemes, and the reliance upon successful investment strategies by the money purchase fund. As far as an employer is concerned, the survey results suggest that the descending order by contributions cost of schemes is: non-contributory final salary; contributory final salary; non-contributory money purchase; and contributory money purchase.

The incentive to the employer to save on pension funding costs, by switching from final salary to money purchase, appears to be at its greatest when the scheme is a non-contributory arrangement (that is, from 14.8% to 7.3%). Nonetheless, with contributory final salary schemes, the results of this survey have indicated that employers could on average reduce their contribution from 9.6% to 5.6%, a potential saving of 4.0% of eligible employee payroll costs.

Another of our principal findings concerned the perceived efficacy of the pension schemes. The vast bulk of the managers who replied considered that their schemes had a positive effect on the recruitment, retention and motivation of employees, though the firms concerned did not have evidence - other than of the most impressionistic kind - to support those beliefs.

The absence of hard evidence could be said to point to ad hocery, or expediency, in the role of pension schemes in overall remuneration and labour strategy. However, we did not discount the possibility that pension schemes were achieving covert management objectives, such as facilitating the planning of early retirement among employees, even though managers have tended to emphasise the retention properties of such schemes.

Moves towards early retirement (and hence to reduction of the workforce) also prompted us to consider the place of pension schemes within HRM strategy as a whole. Our postal replies pointed to some ambiguity. On the one hand, and in so far as HRM embodies a unitary perspective, employers' continuing exclusion of certain employee groups from scheme membership could be said to conflict with the unitary model. Furthermore, when certain employees, such as part-time workers, *have* latterly been included in scheme membership, such moves seem more to have been prompted by legal compulsion than by strategic human resource considerations.

Given the ambiguity of some of our responses, we visited some of our respondents for a follow-up study. Our requests for visits rested on the acknowledgment that pension schemes can constitute very substantial elements in contemporary labour costs. That being so, we sought to explore further to what extent pension schemes are governed by ad hocery, or legal force, on the one hand, or whether they form part of a coherent labour strategy on the other.

This paper, which explores the various HRM issues which we have just alluded to, is based upon single interviews in over a dozen firms which invited us back after the completion of the 1995 questionnaires.[2] The interviews themselves were conducted between January and the summer of 1997, although, given the small number of interviews, we make no claim that our findings are wholly representative of the entirety of firms which operate pension schemes nowadays. Nevertheless, our fieldwork had the major merit (a function solely of the enterprises which had offered to invite us in) of heterogeneity of firm type. The overall distribution was: eight were in Manufacturing; two in Finance; two in Transport; one in Forestry; and there was one Utility enterprise.

The interviewees had the following functions: four apiece were Staff Benefits or Pensions Managers; Company Secretaries; and Personnel or HRM Directors or Managers. The remaining two respondents were Finance Directors.

Goode Committee and the Pensions Act 1995

Because of various controversies which had arisen in recent years (such as, the so-called "Maxwell Affair" involving the misappropriation of pension assets), a Committee, under the chairmanship of Professor Roy Goode, was established in 1992. The Committee's remit was to review the framework of law and regulation relating to pension schemes. The Committee reported in 1993 (Goode, 1993), and the Pensions Act of 1995 was the reaction to that Report. The main thrust of the Act is to provide for what has been described as "best practice" in the operation of pension plans. Some of these provisions do not apply to money purchase schemes but, to those schemes that are affected, the deadline for compliance (or the beginning of a process leading to compliance) was April 1997. The following provisions of the Act were most notable for the purpose of this article:

- a new Occupational Pensions Regulatory Authority (OPRA) was established to ensure (inter alia) that the law was adhered to;
- the role of the Pensions Ombudsman was extended;
- compensation funds were to be provided from pension schemes in the event of employer dishonesty and insolvency;
- pension scheme trustees were required to ask members either to approve the existing trustee appointment system, or to introduce a new structure. The Act required the canvassing of members' views in one of two ways, either by the lodging of objections to the proposals, or a direct ballot. If the "objections" route was chosen, then a proposal would be treated as being approved if either no objections had been received, or the number of objections was less than 10% of the number of eligible members, or 10,000 which ever was smaller;
- scheme members in the larger schemes were given the right to choose at least one third of the trustees, and the right to appoint professional advisers was vested in the trustees, to whom advisers had now to be responsible (the vast majority of occupational pension schemes are established under trust law, which entails that the money in a scheme is kept separate from a company's assets. Trustees, usually comprising a trust board, are responsible for investing scheme funds, and safeguarding the interests of scheme members);
- employers had now to adhere to minimum funding requirements for final salary schemes; and

- the main pension benefits after April 1997 had to be increased each year in line with inflation, or by 5% if that was less.

Mixed Attitudes to Pension Arrangements

We were able to explore various issues in our follow-up survey, and discovered a complex pattern, with different firms moving in different directions. Such a finding is consistent with the HRM literature which indicates that pensions policy (and other labour matters) should not be expected to conform to some blueprint but will be contingent upon a firm's circumstances and strategic agenda.

For example, Armstrong has explained how the development of reward management strategies has to be carried out "within the context of the organisation's internal and external environments." (Armstrong, 1993, 6) In the same vein, Purcell has referred to the deceptive ease with which normative statements are made about what ought to happen in the making of policies toward people at work. In reality, it is important to take account of the context in which each firm is set; it is also wise to acknowledge that the setting for managerial decision-making is characterized by "uncertainty, complexity, and intra-organizational conflicts." (Purcell, 1995, 63)

It must be acknowledged at the outset that, in any consideration of long-term vs short-term issues, pension schemes of their very nature embrace longer time horizons. In the words of one of our respondents in Manufacturing:

> We are not the best of people in terms of issuing trustee reports. It [the Occupational Pensions Regulatory Authority] certainly puts more onus on us. Pensions is the sort of thing that you can leave till tomorrow.

However, there is always the possibility of complacency intruding, as another manager in Manufacturing admitted:

> We have to make sure that we adhere to [OPRA] deadlines. They are very tight, which we are not meeting at present, and we will have to change that.

We asked our respondent whether the laying down of deadlines was felt to be a good thing:

> Everything to do with the pensions industry takes far too long.

Taken together, these responses provide an illustration of the hard aspects of HR management that are rooted in statutory prescription. Pensions administration is based both upon internal procedures (as laid-out in the trust deed), and externally-validated standards (not least, the minimum funding requirement). And yet adherence is seen as time-consuming, and not enjoying managerial priority. Just as managers might discount the future, so too might employees. Accordingly, a Transport firm was endeavouring to encourage its employees to take the long view:

> We are trying to get them to think of a life-time...We have tried to get people in their 40s to realise that the firm's and the State's pension would not be enough for them to live on.

Therefore, despite paternalistic attempts to promote job-based saving for old age, provision under some schemes is regarded by managers as "inadequate". Adequacy here is seen as sufficient income to maintain a life-style to which individuals have become accustomed. Such shortfalls in pension income can be a function of breaks in contributions but might emerge as a consequence of differences between conditions governing final salary schemes (such as, the effects on pension of a 40/60ths arrangement versus less generous 80ths or 100ths schemes). Whereas DC schemes, which are dependent on levels of employer (and employee) contributions and securities market conditions, may disappoint when it comes to the time for purchasing the annuity that will provide the pension. Soft HR management practice here suggests informing and explaining to employees the need to compensate (by higher saving rates during employment, either within or outwith the occupational scheme) for shortfalls in pensionable service or annuity value.

We now consider aspects of core/periphery employees; the equalisation of pension benefits; early retirement; and pension schemes and control. Some concluding observations are then made which try to trace the linkages between occupational pension schemes and HRM.

In each case, we try through our evidence to explore the interaction between pension schemes and key employee-centred issues. In some cases, we assign significance to market or business imperatives which the managers felt to apply to them; in others, management preferences or awareness hold sway; and in yet others, legal compulsion seems to have had an impact.

Core vs periphery

We did encounter one firm (Finance) which was shifting out of final salary on paradigmatic core/periphery lines:

> The argument is that you can pick people off the street, and get them to do the job: factory style, operating computers, with several large processing centres, fixed-term contracts and high turnover. We would be left with a core group of managers, and the rest [the implication being that two very different sets of pension arrangements would apply to each group].

In undertaking such a *wholesale* shift, this company felt driven by the imperative of matching business with a view regarding labour market conditions. In this case, the hard HR issues dominated the softer ones as there appeared little attempt to “ease” the shift in pension arrangements for the periphery group. Paternalism did not seem to detain the company, not least because of the particular skills market affected (IT document and information processing). This market tends to have workers accustomed to a career comprising fixed-term periods with several different employers, and where there would be no or little expectation of *any* pension arrangement offered by the employers. Therefore, this case can be seen as an example of HR management action intended to bring the employer into line with labour market expectations.

A Manufacturing firm had shifted into money purchase for all new employees after 1994, leaving the earlier final salary scheme to be available solely to the original members. The decision was firmly founded on cost grounds:

> We were aware that - at that time - the Social Security Act would increase costs, and there was our dismay at the Government attacking pension schemes, which was counter-productive. With increasing compliance costs, and contributions costs, we thought that we would go - for new employees only - to a DC scheme...We would have been concerned if all had remained in the old scheme, because of the costs that would have threatened the viability of the whole company, not being able to afford the cost of new machinery etc.

In yet another instance, a Utility had reduced pension benefit for a group of employees in retailing whom it considered to be peripheral:

> We were competing with (X) and (Y) which have poor schemes, or with small companies which don't have a pension scheme at all.

One instance of a diminished benefit in the Utility undertaking was the requirement for new employees to wait for a year before they could join the scheme. This had constituted a major departure from tradition, whereby all full-time employees below senior managerial level had for many years been offered the same access into the final salary scheme. The recent decision had been prompted by privatisation and a reconsideration of the firm's HRM strategy.

A manager in another Finance firm indicated continuing attachment to the final salary scheme, in part on grounds of administrative tidiness, but also because (in accordance with HRM considerations) the employer was seen as entering into long-term employment commitments:
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> If you go to money purchase, with final salary at the side, you have administration problems, administration nightmares. How could you sell that to individuals? You could easily sell money purchase to new staff, but it is not so easy for the existing ones. Does the employer leave investment decisions to the individual? It is a minefield the more flexible you get...We are still aiming to recruit people for a 20-25 year life span.

Nevertheless, we did discern a differentiation within the firm just cited that was more complex than the clear core-periphery approach adopted by the Finance firm mentioned earlier. For example, the manager just quoted went on to say:

> Most of our staff are long-term. There is turnover among sales and IS [IT] but not elsewhere. Many IS folk have been self-employed before coming here, so they may have money purchase arrangements already.

A manager in Manufacturing made a similar distinction:

> There is a long history of very long service employees, who are major beneficiaries from the final salary scheme. But as for computer people [in another part of the company], it's arguable that they might be better off with money purchase.

Later on in the same interview:

> I can see some of our draughtsmen being in and out [of the firm] half of the time.

Equalisation of benefits/Early retirement

Alongside examples of core-periphery developments, as well as adherence to the status quo, we also came across patterns of equalisation of pension scheme benefits that seemed to conform to the HRM orthodoxy, in the sense of fostering unitary relations within the enterprise. A Finance manager spoke of changes, and reflected awareness of wider trends and expectations over the past decade or so:

> There was male domination, as in most schemes, and that has changed; there are widowers' benefits now.

A similar trend was described in Transport:

> We introduced a common retirement age [for men and women] of 60 some years ago.

A Forestry manager was asked why the company had opted for a normal retirement age of 63 for all employees:

> It was a round number. We did feel that a compromise was in order, the rest of the world was tending towards early retirement. At that time we had a lot of senior managers, and the last thing we wanted to do was to lose their services. So, the 63 option would soften the blow, bearing in mind that some would have wished to continue till 65.

Over a quarter of a century, a Manufacturing company had gradually moved towards equalisation between "staff" and "workers".

> The staff scheme started in 1972, and was always very good...The workers' scheme is fairly new, since 1985.

Subsequently, the accrual rate for workers was aligned with that for staff at 1/60ths. Moreover, during 1997, the staff would be expected to make contributions to the pension fund for the first time: the workers' scheme had been on a contributory basis from the outset.

One explanation for these examples of equalisation lay in a concern in the enterprises about the unacceptability of unfair treatment of certain types of workers. Another, more unusual, explanation arose when a Manufacturing company was for a time in foreign hands:

> The retirement age for males was always 63, and we equalised up. We were taken over in 1987, and I am sure that the [nationality of the parent firm] thought that that was the age in the UK. It was as technical as that!

A major factor behind these converging developments was clearly legal compulsion, with the prospect of more to come, especially equalisation between men and women, and full-time and part-time employees.[3]

A Manufacturing enterprise had introduced a common retirement age of 60, for men and women, a few years ago:

> You are trying to anticipate legislative requirements that come in, otherwise you get hit in the head and you have to pay more...We thought that the Government would do the sensible thing and have a decade of retirement, but they didn't do that.

Another aspect of pension schemes that has HRM connotations is that of early retirement. Research evidence (for example, Casey, 1993:10) explains how enterprises in the UK have used surpluses in their final salary pension funds to facilitate the early retirement of older employees, to tackle the business imperatives of cost-cutting, profit enhancement, and approval from the financial markets. A manager in Finance described the company's situation:

> The average age of retirement with us is 55, and falling. Only a couple have gone past 60, here. Final salary certainly facilitates this from an employer's point of view: it is easier to manage than money purchase, when the cash has to come out of current income.

Another Finance company had clearly found the final salary scheme to be a boon:

> The existence of our scheme with a heavy surplus has allowed us to reorganise painlessly, by getting rid of people. With enhanced early retirements, the company got cheap reorganisations. It is still so heavily funded that we would not have to contribute over the next 10-15 years.

Hence, early retirement might be considered anti-HRM in being short-term and anti-human development, despite the cushioning effect of well-funded schemes on labour shake-out, not least because such pension schemes have already been shown to be equated with long-term commitment.

Other aspects to pension schemes, retirement and corporate funding were nevertheless apparent. In the case of a Manufacturing company:

> We don't have many people retiring over the next 10 years - perhaps 20 people only - and there will be a lot more money coming in than going out.

Moreover, a manager in Utilities indicated that the company had gone beyond the early retirement phase:

> From the company perspective, [the scheme] was a powerful tool to allow us to downsize and provide forward planning to our workforce. That might be different in future, when we are thinking of growing the business.

Pension schemes as control

HRM orthodoxy would suggest that managers in this country may have used pension schemes as a means of control over employees, in two respects. First, pensions have increasingly been seen by employers not as "collective" issue, over which the unions might have some legitimate say, but as an individual one, best handled by managers on a person-to-person basis. Second, managers have come to use various aspects of remuneration, such as profit sharing (Kessler and Purcell, 1995; Madron, 1995; Smith, 1993) as a means of achieving covert control objectives. We now explore these issues in relation to our research, noting above all that management preferences and paternalism, together with legal forces, had influenced the way in which the schemes were viewed and run.

For various reasons (Terry and White, 1995: 322), employer-employee conflicts over pension scheme matters tend to be relatively rare. Nevertheless, the issue is not entirely without antagonisms over the locus, the manner, and the extent of pension scheme control.

<u>Employee benefits</u>

Our follow-up interviews highlighted various control issues. One set related to employee expectations of increased benefits in schemes that were already deemed by our management respondents to be “good”. According to a Finance manager:

> Employees are always looking for improved benefits. There is the pensionable salary issue for the field force. They reach a peak salary, then it drops in later years. We may use basic salary at the date of retirement.

Several other interview companies were also being required to tackle the issue of pensionable salary: should it be calculated upon bonus or overtime earnings on the one hand, or basic pay on the other? Ceteris paribus, the former approach would be more costly for employers. It was also evident from our interviews that a tension was being acted out between a fiction and the reality. On the one hand, there was a view that pensions matters are dealt with entirely dispassionately by pension trustees, who are utterly even-handed as between the interests of employers, employed members, deferred pension members, and retired members. On the other hand, the fact of contributions to schemes by employees, notions of pensions as “deferred pay”, and acknowledgments even by a Conservative Government in recent statute law that member trustees have a legitimate role to play, have all served to bring matters of control over pension schemes to the fore, although it has been argued (for example, by Nobles, 1992:10) that there is an “illusion” that a pension scheme and its moneys are independent from the employer.

<u>Appointment of trustees</u>

As we explained earlier, the Pensions Act 1995 gave scheme members the right to choose at least one third of the pension trustees; there had to be at least two such trustees, unless the scheme membership was less than 100, in which case there would be at least one trustee. (It must be stressed that we were interviewing (in early 1997) at a time when some companies had still to finalise their trust board plans in response to the 1995 Act.)

At the time of our 1995 survey, all bar one of our “follow-up” companies had member trustees; the exception, a US-owned Manufacturing firm, had no member trustees out of six on the board. In one case (Manufacturing) there were 100% member trustees, and in five further cases (Transport, Finance, Forestry, Utilities and Manufacturing) member trustees comprised half of the total. However, it must be stressed that “member” trustees were interpreted broadly. In several instances, members were taken to mean *managerial* members of the schemes.

As might have been expected, the largest change in member trusteeship occurred in the US-owned enterprise that had hitherto had no such involvement. After the change, there were three member trustees out of a total of nine. In answer to a question, our respondent admitted that, if it had not been for the Act, they would probably have not had such representation.

> Probably not, if only because of the logistics. There used to be 15 trustees, which was becoming unmanageable, and we cut it back. We are trying to avoid that scenario again.

Other changes in composition, by comparison, were only slight. One Finance company went from 2/5 to 3/6 member trustees; a Forestry firm changed from 2/4 to 2/3; and a Manufacturing firm had diverse outcomes, involving (in the workers’ scheme) a shift from 2/6 to 2/5, and in the case of the staff, from 2/5 to 2/7.

Closer scrutiny of the changes, as well as of the decisions to adhere to the status quo, revealed little reaction to the Act itself. Rather, opportunities were taken to reassess the composition of the board as a whole in the light of various influences.

For example, in the case of a Finance company, a pensioner trustee was included for the first time (although this was not a requirement of the Act), and the merger of two trade unions that were recognised by the company led to the now enlarged trade union losing one seat on the board.

In a Forestry company, instead of 2/4 member trustees, there were now 2/3:

> the fourth one had been a friend to the company for many years. He had decided to retire, so we have come down to 3: a member of management, the chairman, and a member of staff.

We mentioned earlier that the 1995 Act required firms to canvass members' views in one of two ways: either on a default (10%) basis, or by direct ballot of all members.

This was one of the few areas during Parliamentary debates when Conservative and Labour MPs divided markedly at the Bill stage. Conservatives felt that a ballot of all members would be extremely costly. A requirement such as this could constitute the final straw for employers thinking of abandoning pension schemes.

According to Mr A Arbuthnot, the then Under-Secretary of State for Social Security:

> "The employers whom we consulted believed that a ballot would be more expensive." (Standing Committee D, Pensions Bill, 6th sitting, 16.5.95, col 198).

And, earlier that day:

> "I strongly believe that, were we to enforce employers to give up more of their powers to appoint trustees, the long-term prospects of occupational pension provision in this country would be put at risk." (SCD, Bill, 5th sitting, 16.5.95, col 172).

Labour MPs, by comparison, contended that the 10% rule allowed employers to rely upon apathy among scheme members, so that a 10% threshold would rarely if ever be attained. According to the then Opposition spokesman, Mr D Dewar:

> "The worry is that if there is no positive approval, 10% must register discontent, but inertia, which is a massive force in British politics ... may win the day."

And a little later:

> "One positive advantage of a ballot would have been to draw attention to ... changes and to ensure that they were positively approved." (SCD, Bill, 6th sitting, 16.5.95, cols 194-195.)

As far as our interview firms were concerned, several took advantage of the 10% default mechanism.

In the case of a Manufacturing concern:

> We had to write and invite them [i.e. employees] not to object, and we got 2½ (*sic*) objections. We could have reduced the member trustees from four to three, but we haven't. One writer objected to the lack of pensioner trustees [but the firm did nothing].

Similarly, there was no action in the case of a Utility company:

> We put a letter out to all on the objection principle and got 260 objectors, 1.6% of the members including the deferrals. A group of pensioners wrote a letter on company letter-head, and using our postage. They applied for pensioner representation.

Another Manufacturing firm only acted upon the 10% threshold some 3 months before the Act came into force:

> We realised that we could opt out, so we wrote to all members in January (pensioners and workers) inviting them to reply by 14 February. We have a factory at (X), it has always been them and us, and there were lots of questions. On 13th February, 32 (X) workers wrote in and said that we should go through the motions of another member trustee, but the 32 was under the 10%, so we don't think we are obliged by the Act to do so.

A Finance manager acknowledged the difficulty that members had in attaining the threshold, confirming the view of Labour MPs on the Committee that a less demanding requirement in the Act would probably have benefited employees:

> The legal advice is that the trustees have to go to the whole membership, which is 120,000, including the deferred ones. Getting 10% of those to object will be very difficult.

In the sphere of trustees appointments, too, our firms tended to adopt a "minimalist" approach as far as the legislation was concerned. There was little evidence of a greater degree of "democratisation" of the member trustee appointment process in response to the 1995 Act. Indeed, in the spirit of Conservative MPs' reservations, there was some resentment at the very idea, as indicated by a manager in Finance, who, in explaining that 3 out of 6 trustees were members, went on:

> One is a general manager, one is from the National Consultative Committee [for staff], and another was appointed two months ago. None of them are member-elected. We will explain all of that to the Regulator. In [another part of the EU] there is a 50/50 requirement, where the staff seem to make all of the decisions. They are unionised there, too. This sort of thing could force an employer to change to money purchase at the end of the day, for the employer foots the bill. Ours is after all a non-contributory scheme, and in accordance with the trust deed, the employer makes most of the decisions.

A manager in Manufacturing revealed a similarly cavalier approach towards "democracy" in explaining how member trustees came to be on the board:

> (X) used to be the MD at [one of the company sites], and he had a good relationship with [the trade union] down there and asked a couple of the lads if they wanted to be trustees.

Yet another example from Manufacturing demonstrated the ways in which employers can exert control:

> The state of the debate is as follows. The four are not trustees - they are member-nominated members of the board. We are debating - should we have new elections?... the guys have been on the board for a few years - one for four, the other for two - and in all probability we would probably get the same people.

<u>The role of member trustees</u>

Another form of control was the impression upon member trustees of their non-partisan role: they should not seek to represent sectional interests. In the words of a Manufacturing manager:

> We have told them that they will be like an MP: you will represent everyone.

Our respondent went on to remark that the presence of member trustees would probably rather profoundly affect the way in which trust board business was conducted:

> Managerial decisions will take place informally. I would hate to have a Star Chamber, not because we would distrust the people concerned. It would be unfair: you would be giving people information that might worry them - for example, a particular plant might be closed.

A similar message had been conveyed to trustees in a Finance company:

> The employer and the trustees together will appoint a pensioner trustee. That is alright, so long as they are clear why they are there. They are not there to lobby on behalf of the members.

It was clear that the message had sometimes been transmitted repeatedly over many years, as in the case of one of the Utilities:

> At [name of company] we have had an AGM for 40 years, and the chairman of the trustees always explains that trustees are there to look after the interests of all groups.

<u>The training of trustees</u>

Trustees' training operates at two levels: making trustees aware of their legal duties and responsibilities; and ensuring that employees regard themselves as part of the scheme. By supporting the work of the trustees, training is a way of reinforcing the control aspects of pensions. It manifests itself through a sense of "bonding" (common goals) between trustees and employees, especially if management appointed trustees are equal status scheme members. The vast majority of our firms had provided training for their trustees in the past; in addition, most of the training had been laid on by outside agencies. It also became apparent that "training" can be broadly defined for the purpose of equipping trustees for their work relating to occupational pensions. In the case, for example, of a Finance company:

> The new chap has already gone on training. It was provided...at my insistence...The course covered the role of trustees, liabilities, responsibilities.

A Transport company drew trustees from various parts of the country. It was therefore decided to fit training around trust board meetings. It enabled the employer to utilise trustees' time to the utmost:

> We have been doing it [training] since 1991. The trustees meet three times a year. The business of the meeting can be done in less than a day, but the meetings are

> scheduled over two days. And so, Wednesday afternoons might be given over to a training session, finishing off Thursday morning, or we would start business on the Thursday morning, on into the afternoon.

The perceived rationale for training was summed up by a Finance manager:

> All of them [trustees] should have it, including the directors, to find out what they should be asking for. Is the member trustee likely to speak up against the MD? Is he going to ask questions, such as what is the computation? The trustees can ask for anything, but they don't necessarily know what to ask.

In a few instances, little or no training had been given by our firms. In two of those cases, training was planned, but, in another case (a Forestry company), there was felt to be little or no need:

> I think (I might be a bit blasé) because the MD and the scheme secretary are in the same pensions boat as the rest of the staff, and as we [trustees] are all executive directors of the employing company, I think there is justified trust around the place.

We later asked that respondent whether the company had made any estimate of the compliance costs associated with the Act's member trustee provisions:

> I don't honestly know. The chairman is very experienced in the financial sector, he is the chairman of [a financial institution] and the MD has been a trustee for many years. Between them they have a lot of experience. My feeling so far is that there is no particular need for training.

As for the source of training, the vast majority was made available by the schemes' advisers, supplemented, in some instances, by pension-related institutions. In the case of a Transport company, for example:

> All member trustees are sent on a week's training course with the National Association of Pension Funds (NAPF)...We use actuarial advisers to run in-house sessions, briefings, for all trustees.

A Utilities company adopted a similar approach:

> When people come on board, we get them to go on training, normally with the NAPF. But we will use local sources as well - for instance, actuaries, advisers, etc. We also

> use... the scheme solicitor who will cover details over lunch...We try to ensure that everyone goes on at least one a year. One who went on one came back a changed man: he wanted to sit the Pensions Management Institute exam, though he wanted to have a trial exam first!

The significance of the provision of courses by external organisations was pointed up by a Finance manager:

> We have to be seen to be on the fence. It puts the company in a good light with the National Consultative Committee.

<u>Schemes and managerial prerogative</u>

Another dimension of managerial control over pensions matters is that of exercise of prerogative over the availability and/or the terms of schemes. (Nobles, 1992: 8-19) One manager in Manufacturing explained how, in its acquisition policy, the company used a pension scheme:

> strategically. There is major restructuring going on, and we are holding the scheme back until we negotiate new practices and new pay rates.

The manager was asked whether the employees had been made aware of the company's offer:

> The unions shot themselves in the foot. They said that they didn't know how many would be interested in the scheme - probably not a lot - so we withdrew our offer.

In common with the view of many managers, a Utility had tried to "ring-fence" its pension scheme, as explained most clearly by the manager:

> We have always taken the view that pensions should not be muddled up with pay bargaining. The company wished to have control: it's to do with ownership of the scheme. But we do use it as a facilitator for pay awards. In 1995, the last stages of a two-year deal, and just before finalisation, two changes were put on the table: profit-related pay, and increased employer's contribution to the fund. We used that as a positive selling point.

In some cases, it appeared that a pensions topic had been revisited on a more-or-less yearly (and probably ritualistic) basis. We asked a manager in Manufacturing whether pensions were ever the subject of negotiations:

> The only time was when the workers were on 1/80ths, and that was always part of the annual negotiations.

That different multi-plant, or multi-company, enterprises where we interviewed adopted contrasting approaches to the issue of uniform or diverse pension arrangements suggested that managerial control issues were in part a function of how the overall organisation was perceived. One Manufacturing company which operated on several sites had decided against a uniform company-wide scheme:

> There are different interests to reconcile [the names of the various product divisions were then listed]. Also, there is "ownership" by employees - their "local" scheme.

Such considerations were deemed to be not at all relevant in another multi-plant operation, where managerial control loomed (and was made to loom) much larger:

> We have a common scheme for all [X] companies. No company can change a scheme in isolation. It's just not discussed. We cannot influence it in isolation. It's kept above salaries and conditions.

Set against these examples, there were others where some ground had been conceded to employees and their unions, sometimes grudgingly, but tangibly. One could not expect otherwise, given that trade unions regard pensions as a legitimate matter for discussion and - preferably - for negotiation. In the case of a Transport company:

> The [major trade union] is trying to create a national conference to deal with pensions and other things such as [terms and conditions of employment specific to the industry].

A manager in Manufacturing signalled a sense of vulnerability:

> We try to keep it [the scheme] away. We have a separate negotiating committee. At the last valuation we were 20% over-funded, and we got away with that, but this time it will be embarrassingly large.

In other instances, there was a sense of a controlled reciprocity with the unions. In a Transport case:

> There is a joint representative council for pensions. All the unions send a local rep, once a year, to discuss the annual report which is issued to them...It is not adversarial, we have discussions about our surplus or whatever.

Later in the interview, the manager explained:

> With a responsible scheme like ours, you don't push things through. If there was disagreement, we would not go ahead. We would have further discussion.

There is a good deal of support for the notion that pensions have considerable "integrative" potential in management-union dealings; that is, there is much to unite the parties rather than divide them (Walton and McKersie, 1965: 5). One Manufacturing company confirmed this thesis by virtue of the apparatus which it had had in place for some 20 years:

> In the late '70s, we agreed to set up a Pension Link Committee, from the Personnel Department and union reps from each plant. They met frequently in the early days; now, it is once a year. It included [name of full time official] and the like, who negotiated improvements, sharing the surplus...We have had only one issue that led to a problem: the equalisation of pension ages at 65. There was female opposition: "it wasn't fair to women". We did debate other ideas, such as a flexible decade, but we opted for 65.

As for covert managerial objectives, we gained some insights from our interviews. A Transport manager explained how the company tackled questions from employees about entry to the scheme, and deferred pensioners:

> We have immediate entry and 15% turnover. We continue to contribute after they have left, and the employees ask why. But they are cross-subsidising our scheme. There is a hidden surplus for the trustees to count on...If we required two years' service, we would lose them to personal pensions. The way to keep the age profile manageable is to get them in at the start.

In a Finance company, several covert objectives were mentioned, including the use of the scheme as a "milch cow":

> The things that are generating the surplus include the difference between the projected annual increase and the actual one. Staff pay increases have been very small - of the order of 4%...Rumour has it that there is even more prospect of a surplus which is

> likely to arise. [However,] any further pay increases have to be financed by cost savings elsewhere.

Legal influences had clearly had some bearing on our firms' schemes. There were some adjustments to member trustee numbers, and members' views were canvassed in accordance with the terms of the 1995 Act. However, managerial control held sway for several reasons. First, the Act was essentially permissive, consistent with the stance of a Conservative administration disinclined statutorily to support employee representation. Second, the Act was only finally coming into force as we were interviewing: perhaps 5 or 10 years hence, trade unions might be better equipped to shape the member trustee agenda. Yet the major reason for pension schemes remaining firmly under managerial control lay in employers' initiative over the commitment of resources to the schemes, as well as to various trustee-related issues.

Conclusions

This consideration of the role of occupational pension schemes in an HRM context has thrown up several - sometimes contradictory - issues that call for further reflection.

Some of the managerial perspectives elicited by our interviews suggested that pension schemes were wholly consistent with HRM orthodoxy. One such example is the development of core and periphery strategies in some of the enterprises which we visited. Another example can be seen in the corollary of early retirement, which can be facilitated by the operation of final salary schemes. We do recognise that early retirement is as a result of management action, where the scheme may just happen to be structured and funded in a manner that makes employees accept labour shake-out. Nonetheless, the long-term nature of the pension commitment could be said to capture the intention of the employer that should business imperatives change, then a safety-net for employees exists.

Another area that appears powerfully to have been driven by the emergence of HRM is the increasing awareness of the need to consider pensions planning within a business strategy framework. Pension decisions are, inherently, long-term in nature and focus, as shown by the firm which had shifted into money purchase for new employees after 1994. A sizeable final salary scheme - which must be separately administered and supported - will prevail well into the next century.

The *existence* of schemes was felt by our managers to aid the recruitment and retention of employees, for, even in the firm where the scheme had "allow(ed) us to downsize", "(t)hat might be different in future, when we are thinking of growing the business". The *maturation* of schemes enables managers to adjust workforce composition relatively smoothly, notably in the early retirement of older male employees.

Alongside a consonance between HRM and pension schemes, other aspects seem partially to accord with, but also to contradict, the tenets of HRM. One such example is that of personal pensions (mis-selling notwithstanding) which are now the preference of over 5 million (24% of all employees) in Britain (OFT:45). Such a development is paradigmatically HRM in its "individualisation" form, but most of these personal pensions arrangements are contracted by employees entirely independently of employers, on portable pensions grounds. At the same time, if only because of an ability to pay, such employees are likely to be "core" to the enterprise (salaried, possessing valued skills) rather than "peripheral".

We wonder, too, whether there is a tension between that facet of HRM which treats employees as valued assets, and that part which treats them paternalistically, in the sense of being inferior. In the rhetorical question of one of our respondents:

> …Does the employer leave investment decisions to the individual?….

Another aspect of HRM *qua* individualisation seems to run counter to the experience in our firms. Hitherto excluded, inferiorly treated, and "peripheral" groups, such as women, part-timers, and the hourly-paid, were being incorporated fully into several schemes.

A further apparent clash with the proclaimed longer-term horizons of HRM lay in employers' short-term cost preoccupations to hold down the average age of their employees in the shift to money purchase. Short-termism was also said to have infected finance managers in their approach to pensions matters. According to a manager in Transport:

> finance directors are being pressured as a means of cutting costs [to shift to money purchase schemes].

As our earlier survey results showed, the potential for employer savings in switching from final salary to money purchase can be significant. (As a percentage of salary, it can be up to 4% and 8% for contributory and non-contributory schemes respectively). Quite apart from our own survey evidence, there seem to be features inherent in pension schemes as a whole which fit oddly with HRM orthodoxy. For example, there has been preoccupation in recent years with devolved and flexible arrangements as being superior to centralised, uniform, pay and grading structures, as well as remuneration approaches. However, pension schemes are, par excellence, a centrally administered benefit: from this perspective, employees continue to be regarded as a homogenous mass.

Of course, differentiations do apply, but some of these seem to be consistent with earlier patterns of thinking. One such instance is the facility whereby pension schemes can reward loyalty: as the length of service with an employer increases, so too does the employer's contribution to the pension fund, on the back of increases in salaries, both in agreed annual increases and pay-scale increments.

In another respect, too, pension schemes do not appear to be a reflection of HRM thinking. It has been claimed that contemporary managers have placed great emphasis on achieving employee commitment to the enterprise rather than mere compliance. We had difficulty in reconciling this attribute with the insights afforded by those managers whom we interviewed. As further confirmation of our earlier (postal survey) findings (Terry and White, 1997: 171), very few of our enterprises had systematically acquired data to confirm the recruitment and motivational impacts of the schemes, notwithstanding that schemes can involve considerable costs to enterprises (See Table 1). In addition, several managers acknowledged that they had not "marketed" their schemes sufficiently positively to their employees. In consequence, the feeling prevailed among many managers whom we interviewed that employees tended to take the schemes for granted. Of course, apparent employee indifference would be consistent with a discounting of the future. However, the fact that managers neglected to extol their schemes, when they would have it in their power - and interest - to do so, prompts doubts as to the relevance of HRM for yet another facet of occupational pension schemes.

Finally, it can be suggested that pension schemes facilitate a reconciliation of the hard and soft sources of HRM discussed by - among others - Storey (1989) and Legge (1995: 66-7). As indicated by Table 1, in paying often substantial sums to pension funds, employers are signalling the "valued" nature of employees, who have at least some future in the organisation, and whose futures are being safeguarded to some degree, irrespective of prospective employment experience.

But as our evidence and that of others has demonstrated, pension schemes are able to achieve the "harder" objective of exploitation, not merely in controlling the schemes themselves (our evidence on trustees and bargaining is relevant here), but also in achieving employment and cost reductions. The apparent generosity of a scheme tends to mask the fact that the meshing of HRM policies with business strategies calls for labour cost effectiveness. Our findings illustrate the opportunity for achieving this objective by either offering membership to different (less generous) schemes (when employment begins), or by moving existing members (with or without choice) from final salary to money purchase arrangements, or both. It is also recognized that DC schemes may not possess all of the merits of DB ones. However, they exhibit characteristics capable of signaling a sense of paternalism; and recognizing changing attitudes by employees and employers to more flexible remuneration packages. To this extent, pensions policy relates to the strategic status of HRM, as shown up in the handling of employee-employer relations, covering such issues as control and participation, that comprise the micro-structures of HRM.

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NOTES

1 Such a strategy has the potential for returning to haunt the company. If, subsequently, the fund becomes under-funded, the expectation, at least by current members and according to Pensions Act rules, would be for the company to make-up any short fall. At this stage the employer may be convinced of the advantages of shifting to money purchase for, say, all new employees, thereby capping the financial liability.

2 We had initially been invited back by 17 companies, but, in the event. three withdrew their offers, despite reaffirmed undertakings of confidentiality. We gained the impression in phone conversations that these companies (two in Drink, one in Construction) were experiencing severe problems in complying with the 1995 Act. This confirms a truism in survey research of the type which we conducted, and which must be borne in mind when we discuss our results: enterprises beset by major problems are unlikely to have the time or inclination to co-operate.

3 In the 1990 European Court of Justice judgement (Barber v Guardian Royal Exchange), it was established that men and women must be treated equally in respect of occupational pensions. The Occupational Pension Schemes (Equal Access to Membership) Amendment Regulations 1995 sought to protect part-time employees against what had been held to be unjustifiable exclusion. And the Pensions Act of the same year signalled that, by the year 2020, women’s State retirement ages would have increased from 60 to 65 - the men’s current pension age.

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