



europa
financ

Company Pension Schemes

I recently had the pleasure of passing some time with a number of people who own companies in Gibraltar. As they are familiar with EFPG and the services we provide, the subject of conversation kept turning to the topical and, to some employers, thorny issue of pensions. From these discussions, I drew the following conclusions:

It is anticipated, rightly or wrongly, by some employers that at some point a Gibraltar Gov-

ernment may seek to impose an obligation on Gibraltar employers to implement pension schemes for their employees.

Employers perceive the cost of funding a pension scheme will be

high and will have a significant effect on their profitability. Some employers suggested that they simply could not afford to comply if pension scheme provision was imposed upon them.

the long-term nature of pension provision evidences a long-term commitment to an employee

That if they decided to, or were forced to, implement a pension scheme for their workforce, they would not know how to go about doing it. In particular, given a choice of types of scheme which would they choose and how in practical terms would they set it up?

Most employers take a genuinely paternalistic view of their workforce and would like to assist them in having a comfortable retirement, although some are less benevolent.

It should be said that some companies in the Gibraltar private sector already have pension schemes in place. We advise the majority of these. Many, if not most however, do not have schemes in place.

As I mentioned in my introduction, I was struck by the genuinely paternal attitude expressed by the employers I spoke to. For the most part, there seemed to be a genuine interest in the financial well-being of employees in their retirement years. It is for this reason, and this reason alone, that some of our clients with existing pension schemes implemented them in the first place.

I understand, however, that for many companies operating in a competitive marketplace, controlling costs is essential for business success and for some, key to the survival of their business. So there have to be other sound business reasons to take on the cost of putting a pension scheme in place.

From time to time, I am sure that employers find it difficult to recruit the best employees — those who are sufficiently skilled and trained to take on the role for which they are required without the investment of large amounts of management time. This problem is increased when you faced with a small pool from which to draw these employees, such as Gibraltar. Once you have recruited the right individual, you then have the problem of retaining them. The provision of pension benefits could

be the difference between somebody joining one company or their competitor. Likewise, the long-term nature of pension provision evidences a long-term commitment to an employee, which, you never know, may be reciprocated.

The potential for obligation

With increased longevity, as a result of improvements in medical science, better eating and generally healthier lifestyles, provision of retirement benefits via the state system funded by tax revenues, by which I mean the State Pension is likely to become increasingly difficult. Ultimately and if trends continue we could get to the point where we have one worker for each pensioner (as is predicted to be the case in the UK by 2050).

Some countries see a partial solution with immigration, i.e. encouraging those from overseas to work and pay tax in the country in the expectation that they will not remain in the country long enough to be eligible for a state pension. We can see evidence of this in Gibraltar.

According to the Chief Minister's Budget Speech last month, 63% of the Gibraltar population are 'economically active' being an increase of 2% on the previous year. I would assume that the remaining 37% are predominantly made up of non-working spouses, retired or studying as thankfully the number of unemployed is very low. Increasing economic activity, again much in evidence in Gibraltar, is another partial solution to pension funding.

Increasing the state retirement age would help. This is declared policy in the UK but not, as yet, in Gibraltar. In any event, any increase in retirement age is likely to be resisted in Gibraltar particularly for so long as a high proportion of Gibraltarians are able to retire at 55 on full pension as they are employed within the Civil Service.

It is understandable that many will see this as a problem for Government and not, on its own a reason to spend their company's hard earned money on funding a company pension scheme. It may, however, be a reason put forward by a Government for wishing to share the financial burden of funding the retired with the private sector — possibly by making company pension schemes obligatory!

To which my final point...

Is a Government likely to make it obligatory for an employer in Gibraltar to provide a Pension Scheme for their employees?

The honest answer is that nobody knows for sure. To get an idea, we have to look for clues both here at home and abroad.

In the UK around the year 2000, the Government launched the 'Stakeholder Pension'. Employers were required to offer the facility to their employees but not required to fund it. Employees were not required to join it and generally, Insurance Companies who provided the schemes had their charges nailed down so tight that they were only viable if taken up in large numbers. It was not. It was taken up in very small numbers.

The UK Government has now 'tightened the screw' somewhat. With cross-party support, a 'low-cost' National Savings Scheme is being established. This takes a soft-compulsion approach, in that:

- All employees will automatically be enrolled in the scheme
- Employees required to contribute 4% of salary
- Employers required to contribute 3% of salary
- Government will contribute 1% of salary
- Employees may 'opt out' although feeling is that most employees will not be bothered to take the proactive step to opt out
- Employers obligated unless the employee chooses to opt out or Company already provides equivalent or better.

Will a similar system be introduced in Gibraltar?

Clues:

The Provident 3 Fund – a 'low cost' National Savings Scheme. Available in Gibraltar since Autumn 2005.

The ability to take a pension fund as tax-free cash, making saving via pension plans and pensions schemes more attractive than previously. The position in Gibraltar since July 2006.

Forgive me for drawing analogies with the UK. Gibraltar is, of course, different in many ways. At the moment there is enough money available, due to unprecedented economic prosperity, to fund a significant increase in State Pensions. We will, however, have to see what the future brings.

any increase in retirement age is likely to be resisted particularly as a high proportion of Gibraltarians are able to retire at 55