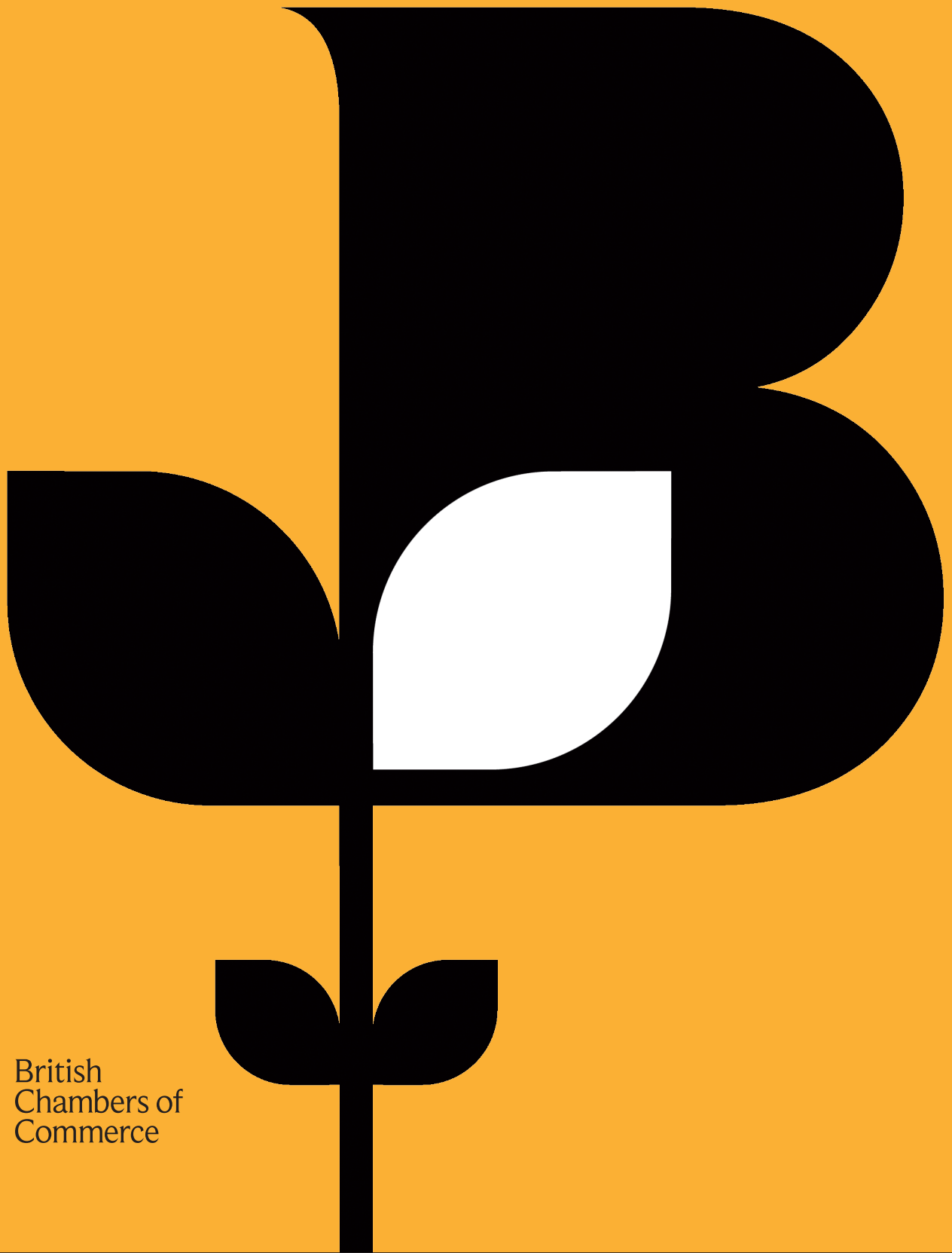


BRITISH CHAMBERS OF COMMERCE

The Impact of the Pensions Act 2008 on the Flexible Labour Market



ABOUT US

The British Chambers of Commerce (BCC) is the national voice of local business; a national network of quality-accredited Chambers of Commerce, uniquely positioned at the heart of every business community in the UK. The BCC represents approximately 100,000 businesses of all sizes across all sectors of the economy that together employ over 5 million people.

For further information please contact:

British Chambers of Commerce
65 Petty France
St James's Park
London SW1H 9EU
020 7654 5800

Abigail Morris - Policy Adviser

ACKNOWLEDGEMENTS

Liz Longman, Director TEAM UK
Sue Hill, Sue Hill Recruitment
Phillippa Hart, Hart Recruitment
Gareth Elliott - Senior Policy Adviser

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INTRODUCTION

British Chambers of Commerce (BCC) is concerned that the Government has not researched how the attitudes of temporary agency workers to pension's reform may differ to those of permanent employees. We conducted a small survey of agency workers, in conjunction with TEAM UK, at different agencies across the UK and looked at a variety of issues including awareness and the opt out process. These results are important to inform policy making surrounding the reforms and agencies. They will also be helpful in planning communications and the work of the Personal Accounts Delivery Authority (PADA).

THE IMPORTANCE OF THE FLEXIBLE LABOUR MARKET

In both good and bad economic times, businesses value the flexibility that hiring agency staff and temporary contract labour provides. A recent BCC survey showed that 25% of businesses use agency staff.¹ Overwhelmingly the main reason business gave for using agency staff was to improve the flexibility of their workforce (67%).² Businesses highlighted the need to get temporary cover for staff on sick leave or annual leave. An alternative use is when skilled personnel are needed to work on a specific time limited project.

In a recession, it is even more important that businesses can respond to changes in demand by utilising flexible labour. In uncertain times, businesses may not be able to commit to a fulltime permanent member of staff and so using agencies and 'temp to perm' staff gives them more options.

THE PENSIONS ACT 2008

The BCC is very supportive of the intentions behind the Pensions Act 2008. We understand the need to encourage better retirement savings and acknowledge that the demographic changes in the UK make these reforms essential.

However, as businesses will have to pay a minimum 3% contribution of earnings to all eligible employees, more effort should be made by the Government to ensure that the administrative burden is as low as possible. We do not believe that this is the case so far.

One example is that employers will have to inform their employees if they have filled in the opt out form wrongly. It is small administrative tasks like these that should be kept far away from employers, and ideally rest on the scheme. A task such as the aforementioned will be an even bigger burden for agencies who will have to deal with thousands of opt out forms a year; the obligation of having to check them for errors will be considerable.

1. The Workforce Survey
2. Ibid



RECOMMENDATIONS

The British Chambers of Commerce recommends that urgent action be taken by the government to ensure that agencies and the flexible labour market are not undermined by these proposals.

- An agency worker who has opted out should have the option to keep that opt out until the next point of re-auto enrolment. At any time, they could still have the option to opt back in if they so choose. Otherwise, the worker could find themselves opting out several times a year, an administrative nightmare for agencies and a nuisance for workers.
- Agencies should be exempted from the pre-recruitment section of the legislation, except under the specific circumstance that they advertise they will only accept workers who wish to opt out. This is the only way to make the law viable. Agencies are not under any obligation to provide work and should not be under the threat of action from the Regulator if an agency worker happens to have opted out and so gets more work than a more expensive worker who remained in the scheme. The concept of pre-recruitment does not fit the agency sector and any attempt to force it to will result in uncertainty and confusion for agencies and workers.
- The Government must keep the date for implementation of the reforms under review. Although the current plan for implementation October 2012, this must be kept under review in the light of the current economic climate. Anything that may discourage job creation at a time when the economy is recovering from the recession should be postponed. If, as expected, these reforms begin at a similar time to personal tax rises (such as income tax or national insurance) this should also be taken into account,
- The Government must do more research into how these reforms will affect agencies and agency workers. It is clear that much of the legislation is designed with the full time, permanent employees in mind. Implementation must take into account the inherent differences between agency workers and employees, and employers and agencies.

AUTO-ENROLMENT AND AGENCY WORKERS

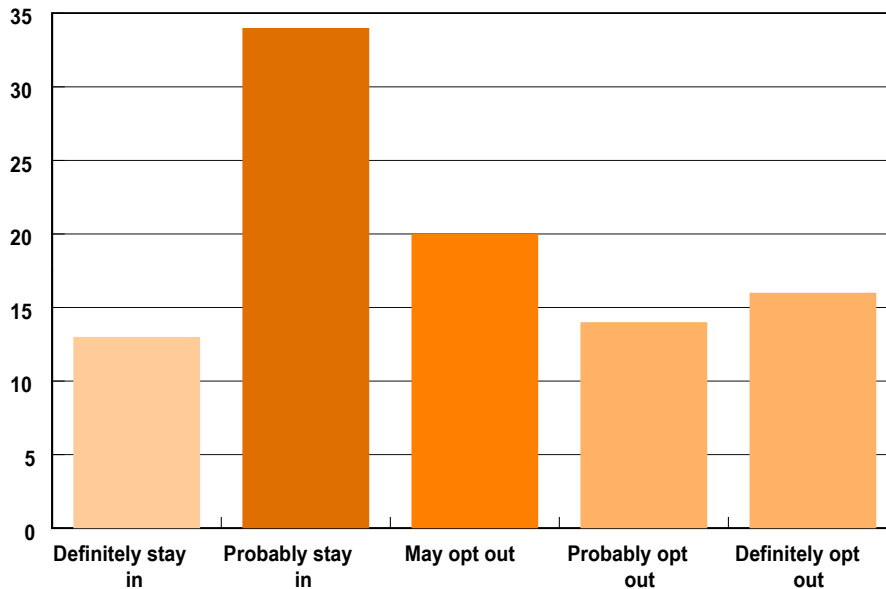
Pension's reform is due to be implemented in October 2012 and all eligible employees and workers in the UK will have to be auto-enrolled into a qualifying pension scheme. At the very least, employers will have to pay a 3% contribution; with the worker contributing 4% and then a further 1% coming from the Government in the form of tax relief.

The Pensions Act 2008 makes it clear that agency workers must be auto-enrolled and that it is the responsibility of the agency to take on the employer duty. The primary legislation contains provisions which are very difficult to fit in to the agency context, such as prohibitions on inducing employees to opt out and the new laws surrounding recruitment.

The high turnover and number of workers involved will also exacerbate the problems agencies will face and result in a large, and costly, administrative burden falling on the agencies. End users of workers will face a large increase in their bill, not just for the contribution, but also to offset the costs of administering the reforms.

Previous Government research has failed to analyse the impact of the reforms on agencies and the attitudes of agency workers (as distinct to permanent employees) to the reforms.

How likely are you to opt out?



Sample size: 161

We asked the agency workers how likely there were to opt out of a pension scheme once they had been automatically enrolled. The split is almost exactly 50:50, although most people had not 'definitely' committed one way or the other.

However, there is a marked difference between the attitudes of temporary workers and the findings of the DWP research. The Department found that 69% said that they would definitely or probably stay in the scheme, 22% said they would definitely or probably opt out and 10% were undecided .

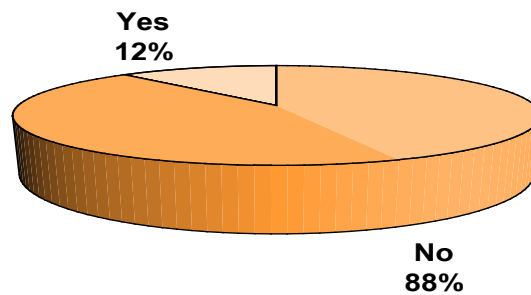
Many of the comments as to why workers wish to opt out were the same as the sample in the

DWP survey; distrust of pensions, unable to afford the employee contribution and some already had a personal pension.

Some comments were specific to agency workers:

- 'I am only in the UK on a temporary visa and there is little chance of me returning later in life to add to or cash in my pension'
- 'I might not want to work for many years of my life'
- 'I would want to opt out as I am only a temporary employee and could end up with lots of little pensions all over the place'

Before you were directed to this survey, were you aware of the plans for pension's reform?



In the DWP survey, 23% of employees were aware of the plans for pensions reform. This survey shows the numbers are even lower for agency workers with only 12% being aware of the plans. These numbers are very low and indicate that the Government needs to do more to raise awareness even at this early stage. Furthermore, our survey took place over a year after the DWP survey and so a small uplift in awareness would have been expected, especially with the passing of the Bill but this was not the case.

PUBLIC CONSULTATION

Agency workers were then asked if there had been enough public consultation done about the scheme; 96% said no. In the debates in both Houses of Parliament on the Bill, the views of agency workers got very little attention. Little thought has been given to how workers, as oppose to employees, would react to the reforms, and our research shows that their attitudes are, unsurprisingly, quite different.

THE ADMINISTRATIVE COST

We asked three agencies to tell us how many P45's they sent out last year. The average of these figures was 250 a week which equates to 13,000 a year. In the Impact Assessment accompanying the regulations on the employer duty, it was estimated that the administrative cost to business will be £10 per worker. However, for an agency, the number of workers is irrelevant as each time a P45 is generated then that person has to be auto-enrolled again. Therefore, using the Government's own figures, the administrative cost for an agency would be £130,000 per year. This figure dwarfs the estimate of £1,120 or year that the Government believes it would cost a large business to administer the scheme.

However, the sum very much depends on the number of people likely to opt out. When a worker opts out, this generates more paperwork and could possibly trigger the unwieldy and complex refund procedure. As our research shows, agency workers are far more likely to opt out than permanent employees. This will push up the administrative cost for agencies even higher.

