Make CEOs join the same pension scheme as staff to help protect it, say experts

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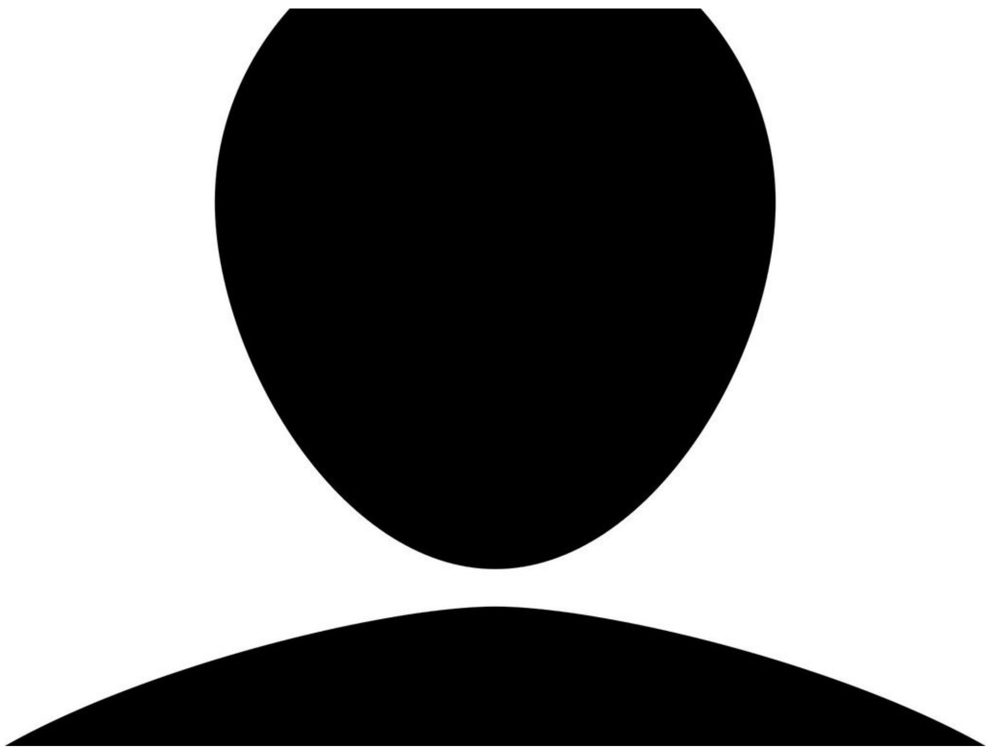

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Making company bosses join the same defined benefit scheme as their staff makes it more likely the scheme will survive, according to research carried out by the University of Exeter Business School.

This sort of approach makes schemes more sustainable and could even have prevented the recent pension scandals at Carillion and BhS.

"Amber Rudd, the Secretary of State for Work and Pensions announced plans to introduce jail sentences of up to seven years for bosses who mismanage company pension schemes and we welcome the Government taking the issue very seriously," said Professor Paraskevi Vicky Kiosse, Associate Professor of Accounting and co-author of the research.

"However our research suggests that a carrot approach, where the health of the pension scheme is as important to the CEO as it is to the rest of the staff may be the best approach – rather than jailing bosses once the scheme has failed and employees have lost those pension benefits. Government-backed jail sentences for executives who recklessly mismanage pension schemes may be hard to enforce and benefits for employees who are members of the scheme may be questionable. Requiring bosses to be members of the same pension scheme offered to all other employees and under the same terms may better incentivise them to look after the pension scheme."

The research which is carried out by Joanne Horton from Warwick Business School, Paraskevi Vicky Kiosse from Exeter University and Evisa Mitrou from Queen Mary University of London found that CEOs were 77 per cent less likely to close the firm's main defined-benefit pension scheme if they were a member and a trustee of the scheme themselves; this was the case even when the scheme was in deficit. In instances where the main defined benefit pension scheme for staff was underfunded and the CEO was a member of a separate executive pension scheme, the findings of the study suggest that it was 62 per cent more likely to close down the main defined benefit scheme.

"Of the defined-benefit pension schemes we studied, alarmingly 74 per cent were in deficit, to the tune of £560 billion," added Professor Kiosse. "It shows the need for urgent action to protect pension schemes and the futures of many thousands of staff."

The study examined 322 publicly listed UK firms that offered a defined-benefit pension scheme between 1999 and 2013. 74 firms fully closed their defined-benefit scheme during this period and a further 156 firms partially closed their pension scheme, by closing it to new entrants. The employees affected joined a defined contribution scheme, essentially a no guarantee of benefits in retirement pension scheme, whereby employees have to bear the risk.

Professor Kiosse said: "Governance of defined benefit pension schemes needs to be thought of carefully to ensure the sustainability of defined benefit pension schemes and the welfare of employees and our society. Aligning the interests of executives and all other employees may give executives the right incentives to look after the defined benefit pension scheme. And while executives will understandably take other factors into account when managing the pension scheme, the probability of increasing the sustainability of the defined benefit pension scheme offered to all employees is likely to be higher when executives are members of the same scheme offered to all other employees and under the same terms than when they are not."

Provided by University of Exeter

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