
PPi Indonesia
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PERSONAL FINANCE

EMPLOYEE WELLBEING - CAN YOUR STAFF *(OR YOU)* AFFORD TO RETIRE?

One aspect of CSR is the consideration that should be given to the welfare of employees. This entails ensuring that they enjoy a safe and pleasant working environment and that they receive pay and benefits that allow them to enjoy a decent standard of living. The obligation does not end there. Should we not also ensure they live comfortably in retirement? We should in theory, but in reality it is not so simple.

One day I had a call from reception to say that a gentleman was asking to see me. When I saw him I immediately recognised him as a driver who had worked for an oil company I was with in Jakarta some 20 years previously. He had traced me to my new company. After we had exchanged a few pleasantries he soon broke down and told me the sad story of his life since he was pensioned off. He was now too old to find employment and he and his wife were now destitute with no surviving family to help them. I offered sympathy and a little money and wished him well. I then checked with my former company and they confirmed he had been visiting them too.

His dilemma must be shared by millions of others in Indonesia and the world over who face old age and deteriorating health with no state pension and no company or private pension. When the driver worked for the oil company the only 'pension' provided for in the labour laws was a 'pesangon' consisting of a lump sum relating to the number of years worked. Where employers were concerned a retired employee was now out of sight and out of mind.

But some progress has been made

Today, conditions have improved somewhat for local employees in that larger companies now have some form of pension scheme. However, unless the employee has been a member of the scheme for many years the actual pension is likely to be a small one. Whatever the size of the pension, the critical issue then is to what degree, if any, the pension is protected against inflation. If there is no protection and local inflation is running at say 10% per annum, the purchasing power of the pension will be halved in just seven years. After another seven years it will be worth less than a quarter and after another nine years just 10% of its original value.

The dilemma for employers

As anyone who has considered buying an annuity will know, the cost of inflation-proofing a pension is considerable and that is the case in the US and UK where current interest rates are rock bottom. While big oil companies could absorb this cost it would be beyond the ability of most employers, especially in labour-intensive and highly competitive industries.

The fact is that the burden of the existing rights of employees weighs heavily on many employers. Many fail to accrue funds to cover the liability of laying staff off, never mind providing for their retirement. I don't know how many times I have read in the press of workers arriving on a Monday morning to find factory gates locked and that the owners had disappeared.

I was appointed to the committee of a large sports club at the height of the Asian financial crisis in 1997. Due to the decimation of expatriate membership my first task to avoid losses was to drastically reduce the labour force by way of some early retirements. I found I could not as no provision had been made in to cover the severance payments of staff, many of whom had completed over 20 years' service.

In another case, a colleague who managed a large factory said that while business was booming he could add another 300 workers but he dare not because it could be difficult and costly to lay them off when there was a downturn. The simple solution would be to hire contract labour but this is now illegal. It is unfortunate that many laws which are intended to protect and benefit workers have the opposite effect in the long run as they reduce future employment opportunities.

So should governments provide pensions and other benefits?

In a perfect world, yes, but in reality it is a dream beyond reach. The UK perhaps was the world leader back in 1948 when its National Health Scheme and State Pension Scheme were the envy of the world, but the world was different then; people worked until 65 and died just a few years later. Today, people are living into their eighties and this puts huge pressures on the working force. In Indonesia people have more family support to compensate but even that is diminishing with urbanisation. No doubt a few trillion Rupiah could be freed up if the remaining fuel subsidy were removed but there are other priorities such as education and infrastructure.

Indonesia is not alone with its budget deficits. The US, UK and most of continental Europe are struggling to make ends meet. British pensioners who have chosen to live in Indonesia are victims of an unusual form of discrimination in that their state pensions are frozen from the time they leave the UK, even though they have completed their full contributions during their working lives. This applies to pensioners in 123 countries, including Australia and Canada, but those living in other countries enjoy annual increments in line with those living in the UK. There is reportedly a lady living in Australia who is today receiving a pension of six pounds a week, the same amount as when she left the UK in the 1970's. There is an action group addressing this and a branch exists in Bali. If you would like to support it, I can provide the contact details.

How prepared are Westerners for retirement?

According to all reports, very poorly! It has been estimated that 90% of Americans will not be able to retire on savings and social security. According to a Hartford Insurance Study, in 2000 only 1% of Americans would be wealthy by the age of 65 and only 4% 'well to do'. That leaves 5% still working, 36% would be dead and the remaining 54% dead broke! In the UK a report by the Chatham House Think Tank in 2011 stated that more than 15 million households would be unable to maintain their current way of life after retirement, with many losing half their income after 65. The retirement crisis in many countries has been caused by the scrapping of gold-plated final salary pension schemes and the low value of annuities due to low interest rates. Companies have had no option but to scrap their 'defined benefits' schemes as the funding became a crippling financial burden.

So what is the solution?

Since with the best will in the world neither governments nor employers can provide a level of benefits that would provide people with a decent standard of living in old age, what can be done? Employers may not have the financial means to solve the problem but they can take a proactive approach by assisting and educating employees so that they can help themselves.

Where local employees are concerned they can provide counselling or seminars where the employees can learn the basics of banking, saving and retirement planning. They should be encouraged to match any pension contributions paid by the company into plans which ideally will provide income in retirement. If the company can afford it, they should reward loyal staff by assisting them in the purchase of a property, no matter how small.

Where expatriates are concerned, they too should have access to appropriate financial advice. When they leave their home countries, they generally cease contributing to state and company schemes that would have ensured modest pensions on retirement. In most cases they have no choice but few set about replacing those schemes to fill the inevitable gap that will otherwise be created. British expatriates leaving company or private pensions behind in the UK would be well-advised to consider transferring them offshore to a QROPS while the facility is still available. Most people seriously underestimate how much they will require in retirement. What if you have left it too late to save? There are some measures left such as clearing debt, delaying retirement or working part-time, trading down a property for a smaller one and so on. But prevention is always better than cure.

A final sobering comment is that for future retirees there is good news and bad news. The good news is that with improved lifestyles and medical care you are likely to live some 20 years longer than your great-grandfather. The bad news is that those could be years of abject poverty. So to prevent that happening take action now and if you are an employer or manager, make it part of your duty to spread the word?

And finally what happened to the driver who called on me? He came a few more times until I finally discouraged him. Where he is now, who knows, but he is among millions of others who live from day to day and have little time to think of the future. This is hopefully where we can help.