

2006 Smaller Firms Pension Survey...

Conclusions: Cost and simplicity remain key challenges as firms threaten to level down



Worrying trend: levelling-down of pension schemes

pension trends in smaller firms survey: many firms are considering further benefit changes because of cost concerns

The Association of Consulting Actuaries (ACA) 2006 Pension Trends in Smaller Firms Survey was conducted earlier this year. Over 460 firms, all with 250 or fewer employees, responded to a wide range of topical pension and investment questions, including a special section on pension reform proposals.

The first report (*Views on pensions reform*), focused on firms' views on the proposals contained in the reports of the Pensions Commission in the run up to the Pensions

White Paper, *Security in retirement: towards a new pensions system*, published in May 2006. This part of the survey found a clear majority of firms are supportive of the National Pension Savings Scheme (NPSS) proposed by the Pensions Commission, and largely endorsed by the White Paper. However, worries are expressed about the cost of auto-enrolment in terms of the extra cost of enrolling more scheme members. There are also real concerns over the continued complexity of the State reforms and the extent of means-testing that would continue.

This second and final report explores in greater detail the scheme design changes taking place in the sector, trends in pension contributions and investment issues. The move away from more costly and more heavily regulated pension arrangements is very clear. Open defined benefit schemes (in the main final salary based) are, for example, very rare compared to previous surveys of the sector stretching back to 1996.

the key findings

pension trends in sector: defined benefit coverage in steep decline as deficits rise

over 70% of these smaller firms' schemes are closed to new members and over 40% to new accruals. Scheme funding levels of these smaller schemes are - on average - 69%, with over a third of schemes unlikely to recover deficits within 10 years.

levelling-down already in progress: switch to lower-cost arrangements

as well as closing defined benefit schemes, there is evidence that lower-cost and more lightly regulated pension arrangements are displacing traditional defined contribution schemes.

views on pension reform: support for NPSS, but State reforms too complex

only 17% of firms actively oppose the NPSS proposal, but 68% say the Pensions Commission's State reforms (largely supported by the White Paper) are too complex. Firms say over 80% of employees do not understand the State pension scheme.

the future: time and cost worries

firms are most worried for the future about the management time taken up by running schemes and the impact of legislation on benefits and funding costs.

smaller firms pension scheme design: far fewer employees have access to open defined benefit schemes...

Over 70% of defined benefit schemes run by these smaller firms are now closed to new members and over 40% closed to new accruals (compared to 10% of larger schemes, see *2005 ACA Pension Trends Survey*). Average ongoing funding levels of these small schemes at the time of the survey were 69%, with over a third of firms looking to a deficit recovery period of in excess of 10 years.

That said, typical contributions by firms into defined benefit schemes are high - close to 18% of earnings, with total combined contributions at 24% of earnings. The survey found contributions into schemes with deficits are often markedly higher than this (see page 9). This contrasts with firms' contributions into defined contribution schemes, which are running at less than 6% of earnings (close to 10% including employee contributions). The overall differences in spend are large, but so too is the likely pension outcomes as the years unfold, albeit the contribution 'gap' narrows when contracting-out and life insurance

costs are taken into account. Passing 100% investment and longevity risk to employees may seem attractive given current cost and regulatory burdens, but many employees and the newly retired in the decades ahead are unlikely to be so happy unless levels of contributions into defined contribution pensions rise appreciably.

The survey also examines the reasons why firms do or do not offer pensions at present and why employees do or do not join. Cost is seen as the key issue for both firms and employees in this decision, meaning government plans to encourage wider scheme membership through auto-enrolment may also drive an acceleration in cost reduction plans at many smaller firms. A strategy that sees contributions increase alongside reductions in corporate and personal taxation or NI contributions might overcome this problem, but the prospect at present of such a scenario is not encouraging.

Whilst the survey includes firms offering no pension arrangements or contributions, the views of respondents are mainly from those firms - the minority in the sector - that presently offer some sort of pension scheme or contribution to employees' private pensions. Government figures suggest that only around 16% of firms employing 250 or fewer employees make any form of private pension contribution. The firms that responded to this survey are therefore likely to be more 'pension friendly' than the majority of smaller firms.



Can members take the heat of 100% investment and longevity risk?

workplace pensions: important for recruitment or retention?

The survey results suggest that generally in this smaller firms sector offering a pension scheme is not seen as an important factor in helping to recruit or retain key staff, although the smallest firms employing up to 50 employees do see some competitive advantage in offering a scheme. Overall, however, this result supports the Government's own findings that 84% of firms in this sector provide no private

pension scheme or contribution whatsoever. The danger therefore of a general levelling-down if costs rise for those firms already offering something is a very real one, particularly where smaller firms presently offer schemes better than or only marginally better than the NPSS proposals. There is already evidence of this levelling-down process taking place in the results, with lower-cost and more lightly regulated Group

Personal Pensions (GPPs) and Stakeholder schemes displacing 'older' occupational money purchase schemes.

This final report also includes a summary of the key findings of the first report published earlier in the year and the complete statistical tables behind the two reports.

small firms and the big picture: switch to less costly and more lightly regulated pension arrangements

The smaller firms sector - firms employing 250 or fewer employees - is the largest part of the UK economy. It employs over 58% of the working population (up 2% on 2 years ago) and generates over half of the UK's business turnover of £2.4 billion (DTI figures: August 2005). These smaller firms make up 99% of UK enterprises - there are only 6,000 businesses including public corporations and nationalised bodies that now employ over 250 people (see *Figure 1*).

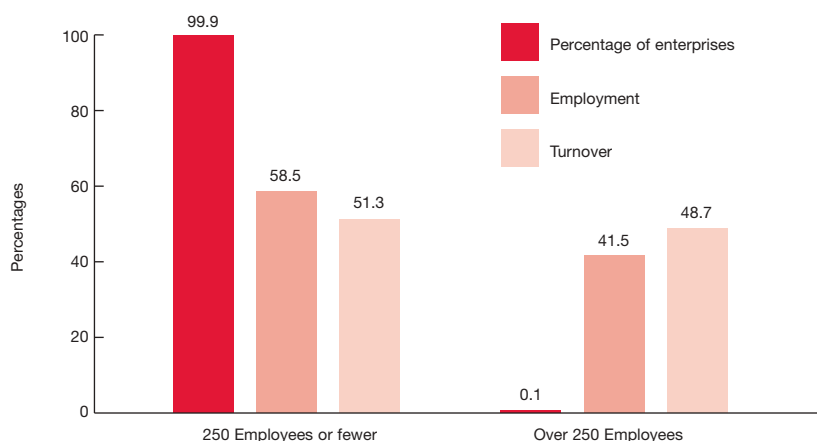


Figure 1: Share of businesses, employment and turnover (by size of business)

(Source: DTI Small and Medium sized Enterprise Statistics, 2005)

The importance of pension trends in the smaller firms sector is clear in terms of the coverage of employees by workplace pension arrangements. It is a key market where the success of the proposed National Pension Savings Scheme (NPSS) will be most tested. According to the 2006 Pensions White Paper, only around 1 in 6 smaller firms employing 250 or fewer staff provide any type of pension arrangement or contribution to employees' private pensions.

This is the fifth *Smaller Firms Pensions Survey* the ACA has conducted since 1996. It attracted 462 responses from firms to a questionnaire issued in early 2006. Of those responding to the survey just under a fifth employ 50 people or fewer, over half employ between 51-150 employees and a quarter between 151 to 250 employees (see *Statistical Appendix, Table 1*). The firms covered by the survey are active across a wide range of sectors, with the largest



Small firms are more inclined to provide pensions for paternalistic reasons than for recruitment or retention of employees

Figure 2: Types of pension arrangements offered by respondents

Type of pension scheme	Percentage of firms with type of schemes	Percentage closed to new new entrants	Percentage closed to new entrants and future accruals	Percentage of eligible employees participating in scheme (average)
Group personal pension scheme	45%	9%		61%
Stakeholder scheme	43%			22%
Defined benefit scheme	22%	74%	41%	63%
Defined contribution occupational scheme	18%	24%	7%	60%
Mixed defined benefit / defined contribution	2%	40%		77%
Career average scheme	1%			
Industry-wide scheme	1%	25%		83%

(Note: the total percentage in column 2 exceeds 100% as many firms have more than one type of scheme).

groupings being manufacturing, engineering, retail, logistics, hi-tech and business / financial services.

GPPs and Stakeholders

dominate sector: Firms responding to the survey predominantly rely on Group Personal Pension (GPP) and Stakeholder offerings. Whilst just over a fifth of the generally larger firms (employing 151-250 employees) in the sector run defined benefit schemes, 74% are closed to new entrants and 41% to new accruals (compared to 10% in larger firms, see *2005 ACA Pension Trends*

Survey). There is also evidence of closures of both trust-based defined contribution workplace schemes and some GPPs in favour of lower-cost (and generally lower coverage) Stakeholder plans. This is a worrying levelling-down, where provision is already weak, ahead of the impact from further reforms such as NPSS (see *Figure 2 and Statistical Appendix, Table 2*).

Firms that offer pension schemes in the sector generally do so because they consider it their responsibility as an employer to make adequate arrangements for their employees.

Smaller firms, however (under 50 employees) say offering a scheme to gain competitive advantage in attracting skilled staff is of greater importance to them (see *Statistical Appendix, Table 3*).

That said, the number of smaller firms offering pension schemes or contributions is low (around 16%), underscoring the conclusion that in the sector generally, pensions are not seen as benefits that are key in recruitment and retention (see *Figure 3 - analysis from 2006 Pensions White Paper*).

Figure 3: Number of smaller firms offering a contribution to a pension scheme by firm size

Employees in Firm	Number of firms currently offering			Total
	No provision and no contributions	Some contributions but less than 3% of earnings	Contributions of 3% or more	
1-49	960,000 (84%)	7,000 (1%)	163,000 (15%)	1,140,000
50-249	19,000 (73%)	870 (3%)	5,500 (24%)	26,000
Total	979,000 (84%)	7,870 (1%)	168,500 (15%)	1,166,000

(Source: Pensions White Paper 2006 - data from Employers Pension Provision Survey 2005 and Small and Medium-sized Enterprises Statistics 2004. Figures may not add up to totals due to rounding.)

Firms that do not offer workplace pension schemes or an employer's contribution to a stakeholder scheme say 'cost' is the key reason, ahead of their assessment that employees have a preference for non-pension benefits. Many also say that there are insufficient competitive pressures to justify offering a scheme.

These reasons are mirrored in the three main reasons given by firms as to why they think individuals do not join schemes, where these are available (see *Figure 4 and Statistical Appendix, Tables 4A and 4B*). Again, 'cost' to employees topped the list followed by a preference to spend income elsewhere. The level of trust in the financial services sector is also a matter of concern and might govern decisions on how NPSS is best administered.

These responses seem to indicate that whilst auto-enrolment may increase pension coverage, there are strong financial pressures at work within both smaller firms and their employees that could lead to high opt-out rates.

Figure 4A: 'Top 5' reasons why firms do not provide a pension scheme and / or an employer's contribution to a stakeholder scheme

Ranked order	
1	Cost – cannot afford employer contributions
2	Employees prefer non-pension benefits
3	There are insufficient competitive pressures to justify scheme
4	Cost – have had to withdraw employer contributions
5	Scheme inappropriate due to staff turnover

Figure 4B: 'Top 5' reasons why firms think individuals do not join the firm's existing pension scheme

Ranked Order	
1	Cost – employees cannot afford
2	Employees prefer to spend income
3	Lack of interest
4	Employees don't trust financial services industry
5	Have own personal pension

scheme costs and reviews: contributions trending up, but real danger may be levelling-down

Figure 5: Average of contributions paid into pension scheme (as a percentage of total earnings)

(Source: ACA 2004 and 2006 Smaller Firms Surveys)

Average employer contributions	2003	2004	2005	2006	Longer-term
Defined benefit scheme	13.8%	15.5%	15.6%	17.7%	16.3%
Defined contribution scheme	5.7%	5.8%	6.0%	6.1%	NA
Group Personal Pension	NA	NA	5.4%	5.5%	NA
Stakeholder scheme	2.2%	2.4%	3.2%	3.3%	NA

Average employee contributions	2003	2004	2005	2006	Longer-term
Defined benefit scheme	5.1%	5.5%	5.8%	6.1%	7.4%
Defined contribution scheme	4.1%	4.1%	4.1%	4.2%	NA
Group Personal Pension	NA	NA	3.2%	3.7%	NA
Stakeholder scheme	2.4%	2.4%	3.1%	3.1%	NA

Average combined employer and employee contributions	2003	2004	2005	2006	Longer-term
Defined benefit scheme	18.9%	21.0%	21.4%	23.8%	23.7%
Defined contribution scheme	9.8%	9.9%	10.1%	10.3%	NA
Group Personal Pension	NA	NA	8.6%	9.2%	NA
Stakeholder scheme	4.6%	4.8%	6.3%	6.4%	NA

With the exception of defined benefit schemes, where combined employer and employee contributions have increased to around 24% of earnings (up by a quarter on 3 years ago), most open defined contribution schemes in the sector are receiving combined contributions of between 9-10% of earnings. The latter is a slight increase in average contributions on 3 years ago. Nevertheless, the joint contributions (particularly taking into account charges) are often barely above the proposed NPSS default levels and this may explain why so many smaller firms rate their own scheme as not equivalent to the proposed NPSS (see *Statistical Appendix, Table 15*). Stakeholder contributions from firms and employees combined on average fall below 7% of earnings, with still many schemes receiving no employer contribution and recording low take-up rates (see *Figure 5 and Statistical Appendix, Table 5*).

If NPSS encourages higher take-up rates of workplace schemes, then the pension costs of many smaller firms will increase, or schemes - as we comment later - may be revised as part of a general levelling-down process or may be abandoned altogether.

Overall, it came as a surprise, that only around a quarter of firms responding to the survey set a target as to what they wish to spend on pensions. This may reflect the dominance of defined contribution schemes in the sector and, hence, the greater certainty in employer costs that these arrangements bring. Many firms may therefore believe that cost controls are well in hand. Where a target is set, this varies between smaller firms (employing up to 50) and larger firms (employing up to 250), with the latter targeting a figure double that of the former. On average, 8% of payroll is the target set (see *Statistical Appendix, Table 6*). Whilst many more of the larger firms in the sector (where defined benefit schemes are more widespread) are looking to reduce their pension spend now and into the future, this is an objective for only a minority of firms - well under a third (see *Statistical Appendix, Tables 7 and 8*).

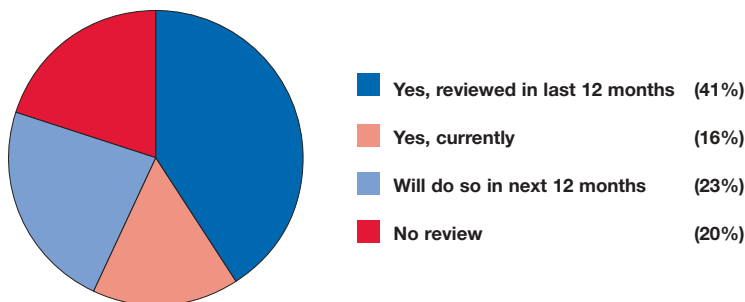
This result indicates that many firms are valiantly maintaining pension spend in the face of rising costs from longevity and political intervention - a picture that is not widely portrayed.

What is clear from the survey results is that high numbers of firms are not waiting until 2010 or 2012 to review their pension arrangements. Well over half have reviewed their arrangements either over the last year or are at present. This is a very high number and, whilst this might not have led to any major changes in design, it is most evident amongst the larger firms in the sector, where higher cost schemes are more prevalent. A further fifth of firms are looking to review arrangements in the coming year (see *Figure 6 and Statistical Appendix, Table 9, for a breakdown by firm size*).

The most common structural changes that have taken place over the last 5 years have been the closure of defined benefit schemes (both to new entrants and future accruals). Some 24% of firms with 150-250 employees report the closure of such schemes to new entrants over the period. The other most marked changes are an increase in employees covered by defined contribution schemes, moves to contract some or all staff back into the State Second Pension and a trend towards flexible benefits (see *Statistical Appendix, Table 10*).

Close to 9 out of 10 firms presently have a normal retirement age of 65, with most of the remainder - particularly amongst larger firms - reporting age 60. At present, very few - only 6% - are considering changing the age (see *Statistical Appendix, Tables 11 and 12*).

Figure 6: Reviews of pension arrangements



the future: time and cost worries

Looking to the future, the survey examines those issues that are most likely to influence thinking on pensions in the longer-term. The issues that are of most concern to small firms are very similar between those running defined benefit and defined contribution schemes, but the degree of concern is generally much higher amongst the defined benefit scheme community. Indeed, in the areas of 'very concerned', defined benefit sponsors are twice as worried by the prospect of increased management time in running schemes and cost increases due to legislative changes (see *Figure 7 and Statistical Appendix, Table 13 for a fuller breakdown*). Given the recent history of defined benefit scheme regulation, this is an unsurprising response, but there must be some alarm that firms offering defined contribution arrangements also place these issues at the top of their 'very concerned' list.



Figure 7: What issues are most likely to influence thinking on pensions on the longer-term

In respect of:	Percentage of firms that are 'very concerned'	
	Defined Benefit Schemes	Defined Contribution Schemes
Increasing burden of management time running schemes	74%	38%
Impact of legislation on benefits and funding costs	71%	36%
Pension reforms that might increase take-up costs of running scheme	44%	22%
Impact of accounting requirements	42%	-
Performance of investment markets	39%	32%
Increases in business competition will lead to pressures to reduce employer contributions	26%	16%
Increase profile of pensions lead to more costly and complex communications with employees	26%	19%

summary of the first report

The initial report of the survey, focused on the views of firms following on from the recommendations made by the Pensions Commission, the majority of which were then featured in the Pensions White Paper, *Security in retirement: towards a new pensions system*, published in May 2006. We summarise below the main survey findings on pension reform:

the key findings: report 1

smaller firms' views on pension reform

national pensions savings scheme: support, but...

only 17% of firms actively oppose the proposals, rising to 30% of the smallest firms. However, a quarter of firms expect opt out rates to exceed 40% of employees.

auto-enrolment: quarter of firms will revise or abandon schemes

if auto-enrolment goes ahead, 16% of firms would look to revise their scheme to mitigate against the higher cost of a greater number of members, with 9% saying they would abandon their scheme altogether.

state pensions: greater simplicity needed

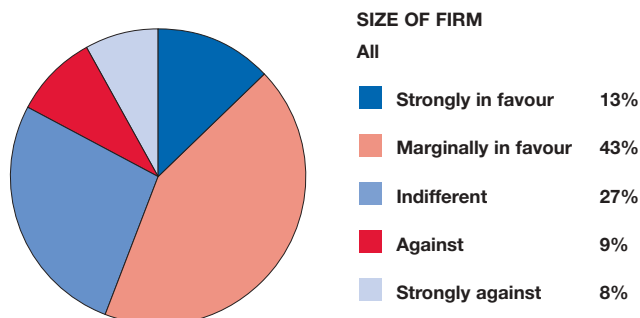
68% of firms say the State Pension reforms advocated by the Pensions Commission, which are largely endorsed by the Pensions White Paper, are too complex. 80% say the proposed on-going level of means-testing is too high and will discourage saving.

national pension savings scheme:

firms responding to the survey were much more supportive of NPSS than opposed to it. Only 17% of firms actively oppose the proposal, rising to 30% of the smallest firms employing fewer than 50 people (see Figure 8 and Statistical Appendix, Table 14 for a fuller breakdown).

Only half the firms responding to the survey say their firm's scheme is equivalent to NPSS, as proposed by the Pensions Commission and largely endorsed by the White Paper. This figure rises to nearly 80% of firms employing up to 50 people.

Figure 8: The National Pension Savings Scheme is likely to impact on pension strategy at almost all firms. Overall, how do firms react to this proposal?



Of those saying their scheme is not as good, a third say this is because of restrictions in eligibility rules, with 81% saying their contribution levels (taking into account charges) fall below NPSS levels (see *Statistical Appendix, Table 15*).

scheme membership and auto-enrolment:

firms offering a pension scheme at least as good as NPSS (which does not include most Stakeholder schemes) on average report scheme membership levels of 62% of eligible employees. Participation falls, however, amongst the smallest firms in the sector to below 60%. In part, levels of membership may reflect the fact that only just over 1 in 10 small firms presently auto-enrol employees into their schemes on joining or at some later date (see *Statistical Appendix, Tables 16 and 17*).

If auto-enrolment is required in the future as proposed by the Pensions Commission and the White Paper, either into company schemes or NPSS, firms still expect opt-out rates to be quite high. Indeed, 4 out of 10 schemes expect opt-outs to exceed 30% of employees. Amongst the smallest firms (up to 50 employees), this incidence of opt-outs is expected by 6 out of 10 firms (see *Figure 9 and Statistical Appendix, Table 18*).

Whilst even these levels of opt-outs would represent a marked improvement on current take-up rates generally, this incidence would leave many employees still dangerously under-pensioned and outside the system. This gives support to auto-enrolment at lower levels of contributions as the initial step, which is proposed in the White Paper, to help

reduce opt-outs. Some greater financial incentive (eg. a lower NI level) to encourage participation - this has worked before - must remain as a policy option.

In many respects, the more worrying responses are those that point to further levelling-down. The survey found that 16% of small firms would look to revise their scheme to mitigate against the higher cost of a greater number of members resulting from auto-enrolment. A further 9% say they would probably abandon their scheme in favour of NPSS, presumably on the basis that their scheme is presently only marginally better (or worse) than the proposed NPSS default contribution levels (see *Statistical Appendix, Table 19*). These are clearly preliminary assessments that firms are making. As we move towards the launch of NPSS and auto-enrolment, these figures could harden up as more firms assess the costs of pension contributions for maybe many more employees. Some financial incentive to help firms retain schemes that are better than NPSS may need to be considered if we are not to see a levelling-down in provision for, potentially, millions of existing employees.

A fifth of firms say that if NPSS adds to costs, then this will have to be met by reducing salaries or employment levels. The largest group, however, would look to share costs between the firm, customers and staff (see *Figure 10 and Statistical Appendix, Table 20*).

The Pensions Commission and White Paper recognises that the costs of NPSS falling on smaller firms may be higher than larger businesses and it seems certain there will be financial concessions proposed by

Government to smooth the introduction of NPSS into smaller firms. Again, such inducements should not be 'lost' to those firms who have already done their bit in providing a pension scheme (see *Figure 11*).

state pensions: only 56% of firms responding to the survey think that because of greater longevity, retirement ages should rise, with the smallest firms split 50:50 on the issue. Firms think that 71% of their employees do not feel retirement ages should rise, although they feel a majority of employees accept that a later State Retirement Age is now inevitable, as endorsed by the White Paper (see *Statistical Appendix, Tables 21-23*).

On State pensions, 81% of firms say their employees do not generally understand the present system. However, reforms that evolve the State Second Pension into a flat-rate payment by closing the gap between the highest and lowest qualifying earnings, are judged to be too complex by 61% of firms (rising to 73% of the smallest firms).

Worse still, 68% of firms do not feel the proposed State reforms will create the clear incentives and understandable base on which private pensions can be built (see *Figure 12*). Notably, 8 out of 10 firms said that the Pensions Commission's proposal that still close to 30% of pensioners would still be on means-tested benefits in 2050 would remain a major discouragement to private pensions (see *Statistical Appendix, Tables 25-28*).

A clear majority support further work being undertaken to explore a simpler State pension through the consolidation of the Basic State

Figure 9: If auto-enrolment is introduced from 2010, how many employees are expected to opt-out?

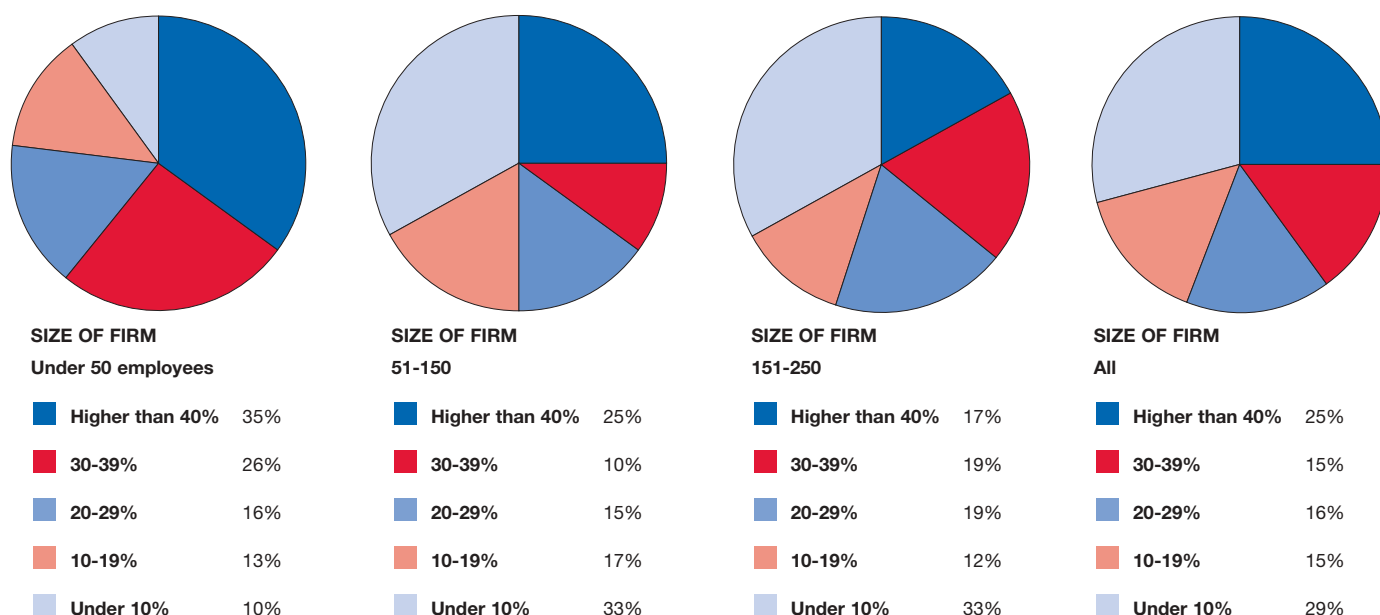
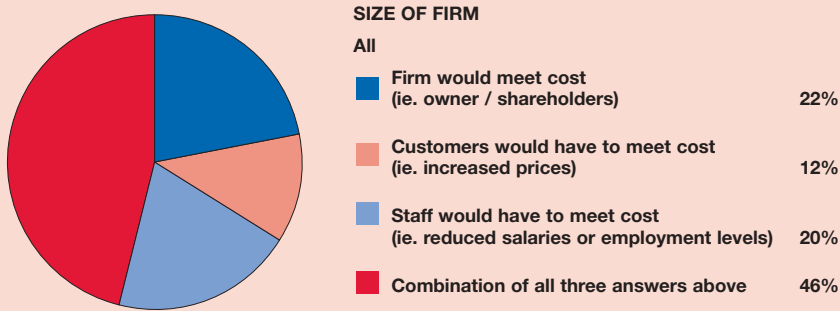


Figure 10: If the NPSS goes ahead, and this led to an increase in costs, how do firms expect to meet the extra cost?



Pension and S2P. However, reflecting the Chancellor's affordability message, 4 out of 10 of those supporting this consolidated State pension would only continue to support such a change if it did not lead to higher costs or taxes (see *Statistical Appendix, Tables 29 and 30*). As the need for simplicity at the foundation level of the pensions system is vital, a solution that places a fixed value on accrued State benefits at a set date in, say,

2012 still seems to be a policy priority worth investigating further.

other reform issues: a majority of small firms (57%) say that the Government should set an example by raising public sector retirement ages for existing employees as and when changes in State Retirement Age take place.

On contracting-out, whereas 73% of firms

support the end of contracting-out in respect of defined contribution schemes, as endorsed by the White Paper, only a minority (42%) of these small firms believe the retention of contracting-out for defined benefit schemes is a valuable incentive. Again, this may reflect the demise of such schemes in the sector. The White Paper supports the Pension Commission's recommendation to retain contracting-out for defined benefit schemes, fearing - probably rightly - that its withdrawal might hasten still further scheme re-design and an even more rapid move away from what remains of defined benefit provision (see *Statistical Appendix, Tables 31-33*).

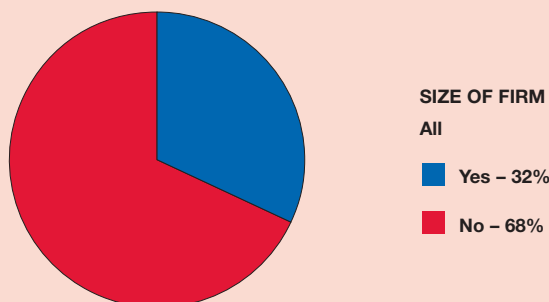
Firms said that they would prefer to see contracting-out replaced in the future by a direct financial incentive from government to employers who provide workplace schemes that are superior to NPSS (see *Statistical Appendix, Table 34*).

Figure 11: The effects of NPSS personal accounts by firm size

Firms size (employees)	1-4	5-49	50-249
Number of private sector employees (m)	2.2	4.6	2.6
Number of employees eligible for auto-enrolment	1.4	3.3	1.7
Participation rate (excluding opt-outs)	70%	70%	65%
Number of NPSS personal accounts (m)	0.9	2.2	1.0
Capped average earnings (£)	£15,500	£18,300	£19,300
Average cost per employee	£140	£190	£170
Costs of minimum employer contribution (£m)	£300m	£900m	£400m
Minimum employer contribution as % of labour costs	0.9%	0.9%	0.7%

(Source: Pensions White Paper, 2006. DWP modelling using spread of Government statistical sources)

Figure 12: Overall, do firms believe that the proposed Pensions Commission structure will create clear incentives and an understandable base on which private saving can be built?



Incentives as well as auto-enrolment will be needed to boost pension provision in smaller firms

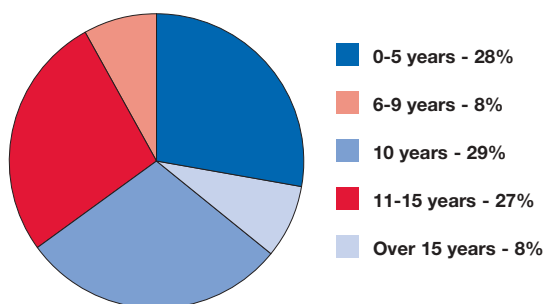
defined benefit schemes: deficits increase, but are being addressed...

As might be expected, defined benefit schemes in the smaller firms sector tend to be confined to larger firms. That said, the survey found still quite high numbers run by firms with fewer than 150 employees, albeit that the incidence of schemes closed to both new entrants and new accruals rises, the smaller the firm. Again, as might be expected, defined benefit schemes are mature arrangements in the sector, with on average only a third of members being current employees (see *Statistical Appendix, Tables 35-37*).

83% of defined benefit schemes reporting to the survey have been advised by their actuaries that they are in deficit. Average ongoing funding level as a percentage of scheme liabilities at the last actuarial assessment were 69%, considerably lower than the 80% level recorded in 2004 by the last ACA smaller firms' survey (and the average 85% level reported by larger schemes in 2005). This situation has led onto a high number of recommendations from actuarial advisers that increased contributions are required into schemes.

Reflecting this need, on average firms' contributions into these schemes have or are being increased by in excess of 40%, rising on average from 16% to 23% of earnings. 4 out of 10 schemes also say employee contributions have or are being increased to help boost funding levels. Where this is occurring, again the increase in contributions is of the order of 40%, rising from 4.6% to 6.8% of earnings. A small number of

Figure 13: Period over which firms say scheme deficits are expected to be removed



schemes have revised their accrual rate from 60ths to 80ths to reduce forward cost increases (see *Statistical Appendix, Tables 38 and 39*).

Expected recovery periods to remove scheme deficits vary widely, with the median being a ten-year period, undoubtedly reflecting the Pension Regulator's 'non' target (see *Figure 13*). However, some 35% of these small firms expect to need a longer period, with 8% over 15 years. Whilst two thirds of the firms are looking to reduce their recovery period in the light of the Statement issued by the Pensions Regulator on the funding of deficits, there must be a reality in this sector that resources are more limited to reduce recovery periods than is the case in respect of larger firms (see *Statistical Appendix, Table 40*). As the years unfold, it will be interesting to see whether the concentration of work for the Regulator in monitoring deficits is concentrated on larger schemes (where the quantum may be large)

or the raft of smaller firms running off legacy schemes that are now so much more costly to run than was ever envisaged when they were established.

Changes in the investment strategy of defined benefit schemes in the sector are also taking place, with over half the schemes either becoming or intending to be more matched as against their liabilities. However, this leaves close to half that are not actively pursuing such a strategy.

Whilst schemes remain heavily equity oriented, the trend is away from equities in favour of a broader spread of investments, the most popular including a higher percentage of gilts, corporate bonds and property. There are also indications that some schemes are looking to incorporate hedge funds and private equity investments, although these remain small elements within the total assets of these smaller schemes (see *Statistical Appendix, Tables 41 and 42*).

defined contribution schemes: investment choice limited

The survey found that in general members of schemes in the smallest firms in the sector are offered few investment choices by their respective pension arrangements. The smaller the firm, the more likely that members will be included within Group Personal Pension and Stakeholder arrangements, as opposed to trust based schemes.

Whilst investment choices are wide in terms of the categories of assets offered, arrangements run by the smallest firms are less likely to offer overseas equity, bonds, mixed managed funds and life-style options. Only 36% of the smallest firms say their schemes offer a default life-style fund, as against 61% of the larger firms employing up to 250 people.

Similarly, whereas 44% of the larger firms (employing 151-250 employees) report over 10 fund options are available to members, only 13% of the smallest firms have such a wide offering. Again, whereas only just over a half of the larger firms in the sector offer just one fund manager under their scheme, this rises to 86% amongst the smallest firms.

Most surprising, perhaps, is the number of firms that say they provide financial assistance or an advisory service to members at retirement when they need to buy an annuity. Albeit, the number of members needing advice is limited due to the immaturity of many schemes, over half claim to provide such a service (see *Statistical Appendix, Tables 43-50*).

Figure 14: Defined contribution schemes offering a default life-style fund

All Firms	46%
1-50 employees	36%
51-150	41%
151-250	61%

Statistical Appendix:
the complete survey results



Respondents by size of firm and types of pension schemes offered

Table 1: Breakdown of respondents by employee numbers

ALL FIRMS		Breakdown of workforce	
	Total	Permanent	Temporary / Contract
1-50 employees	18%	94%	6%
51-150	58%	92%	8%
151-250	24%	91%	9%

Table 2: Types (if any) of pension arrangements firms offer and percentage of current eligible employees in membership?

Type of pension scheme	Percentage of firms with type of schemes	Percentage closed to new entrants	Percentage closed to new entrants and future accruals	Percentage of eligible employees participating in scheme (average)
Defined benefit scheme	22%	74%	41%	63%
Defined contribution occupational scheme	18%	24%	7%	60%
Mixed defined benefit / defined contribution	2%	40%		77%
Career average scheme	1%			
Group personal pension scheme	45%	9%		61%
Stakeholder scheme	43%			22%
Industry-wide scheme	1%	25%		83%
Small self administered scheme	8%			
No scheme offered	8%			

(Note: the total percentage in column 2 exceeds 100% as many firms have more than one type of scheme).

Table 3: Why do firms provide employees with a pension arrangement?

In ranked order

All firms	1-50 employees	51-150 employees	151-250 employees
We consider it is our responsibility as a good employer to make adequate arrangements for our employees retirement	The scheme helps the firm to compete in the labour market for skilled staff	We consider it is our responsibility as a good employer to make adequate arrangements for our employees retirement	We consider it is our responsibility as a good employer to make adequate arrangements for our employees retirement
The scheme helps us build our image as a caring employer, motivating and encouraging loyalty from employees	We consider it is our responsibility as a good employer to make adequate arrangements for our employees retirement	The scheme helps us build our image as a caring employer, motivating and encouraging loyalty from employees	The scheme helps us build our image as a caring employer, motivating and encouraging loyalty from employees
The scheme helps the firm to compete in the labour market for skilled staff	The scheme helps us build our image as a caring employer, motivating and encouraging loyalty from employees	The scheme helps the firm to compete in the labour market for skilled staff	The scheme helps the firm to compete in the labour market for skilled staff
The scheme enables us to retire employees on reasonable pensions in an orderly way to suit our business	We were required to introduce a scheme under the Stakeholder rules	The scheme has been in existence for many years and could not easily be discontinued	The scheme enables us to retire employees on reasonable pensions in an orderly way to suit our business
The scheme has been in existence for many years and could not easily be discontinued	The scheme enables us to retire employees on reasonable pensions in an orderly way to suit our business	The scheme enables us to retire employees on reasonable pensions in an orderly way to suit our business	The scheme has been in existence for many years and could not easily be discontinued
We provide a defined benefit scheme because we believe in sharing the risk with our employees	We provide a defined benefit scheme because we believe in sharing the risk with our employees	We provide a defined benefit scheme because we believe in sharing the risk with our employees	We provide a defined benefit scheme because we believe in sharing the risk with our employees
We were required to introduce a scheme under the Stakeholder rules	The scheme has been in existence for many years and could not easily be discontinued	We were required to introduce a scheme under the Stakeholder rules	We were required to introduce a scheme under the Stakeholder rules

Pension take-up and contributions

Table 4a: Reasons why firms do not provide a pension scheme and / or an employer's contribution to a stakeholder scheme

Ranked in order of importance.

Ranked order	
1	Cost – cannot afford employer contributions
2	Employees prefer non-pension benefits
3	There are insufficient competitive pressures to justify scheme
4	Cost – have had to withdraw employer contributions
5	Scheme inappropriate due to staff turnover
6	We believe State pension arrangements are adequate
7	We have fewer than 5 staff and do not need to offer stakeholder scheme

Table 4b: Main reasons why firms think individuals do not join the firm's existing pension scheme

In ranked order

All firms	1-50 employees	51-150 employees	151-250 employees
Cost - cannot afford	Prefer to spend income	Cost - cannot afford	Prefer to spend income
Prefer to spend income	Cost - cannot afford	Prefer to spend income	Cost - cannot afford
Lack of interest	Don't trust financial services industry	Lack of interest	Have own personal pension
Don't trust financial services industry	Lack of interest	Don't trust financial services industry	Lack of interest
Have own personal pension	Have own personal pension	Have own personal pension	Don't trust financial services industry
Prefer non pension savings	Prefer non pension savings	Don't trust firm's scheme	Prefer non pension savings
Don't trust firm's scheme	Don't trust firm's scheme	Prefer non pension savings	Don't trust firm's scheme

Table 5: Average of contributions paid into pension scheme (as a percentage of total earnings)

Average employer contributions					
	2003	2004	2005	2006	Longer-term
Defined benefit scheme	13.8%	15.5%	15.6%	17.7%	16.3%
Defined contribution scheme	5.7%	5.8%	6.0%	6.1%	NA
Group Personal Pension	NA	NA	5.4%	5.5%	NA
Stakeholder scheme	2.2%	2.4%	3.2%	3.3%	NA

Average employee contributions					
	2003	2004	2005	2006	Longer-term
Defined benefit scheme	5.1%	5.5%	5.8%	6.1%	7.4%
Defined contribution scheme	4.1%	4.1%	4.1%	4.2%	NA
Group Personal Pension	NA	NA	3.2%	3.7%	NA
Stakeholder scheme	2.4%	2.4%	3.1%	3.1%	NA

Average combined employer and employee contributions					
	2003	2004	2005	2006	Longer-term
Defined benefit scheme	18.9%	21.0%	21.4%	23.8%	23.7%
Defined contribution scheme	9.8%	9.9%	10.1%	10.3%	NA
Group Personal Pension	NA	NA	8.6%	9.2%	NA
Stakeholder scheme	4.6%	4.8%	6.3%	6.4%	NA

(Source: ACA 2004 and 2006 Smaller Firms Surveys)

Pension costs and reviews of schemes

Table 6: Do firms have a target as to what they will spend each year on pensions as a percentage of payroll?

SIZE OF FIRM	Yes	Average target as percentage of payroll
1-50 employees	19%	6%
51-150	25%	7%
151-250	26%	12%
All	24%	8%

Table 7: Are firms trying to reduce current spending on pensions?

SIZE OF FIRM	Yes	No
1-50 employees	10%	90%
51-150	11%	89%
151-250	20%	80%
All	13%	87%

Table 8: Are firms trying to reduce the cost of providing pensions that will be earned by employees in the future?

SIZE OF FIRM	Yes	No
1-50 employees	10%	90%
51-150	20%	80%
151-250	29%	71%
All	21%	79%

Table 9: Have firms reviewed their pension arrangements in the last 12 months or are they doing so now?

SIZE OF FIRM	All	1-50 employees	51-150	151-250
Yes, reviewed in last 12 months	41%	27%	44%	46%
Yes, currently	16%	14%	16%	17%
Will do so in next 12 months	23%	30%	22%	21%
No review	20%	29%	18%	16%

Table 10: What structural pension changes have firms made in the last few years?

ALL FIRMS	Last Year				Within Last 5 Years			
	All	1-50	51-150	150+	All	1-50	51-150	150+
Closed defined benefit scheme to new entrants	4%		3%	8%	15%	8%	13%	24%
Closed defined benefit scheme to future accruals	3%	3%	1%	8%	6%	3%	5%	10%
Moved more / all employees into defined contribution scheme(s)	3%	3%	2%	6%	8%	5%	9%	10%
Set up a mixed defined benefit / defined contribution scheme	1%			4%	4%		2%	6%
Set up a career average scheme	1%			2%	1%			2%
Reduced percentage of employees covered by firm's scheme					2%	4%	2%	
Placed one or more schemes in wind-up	2%		2%	2%	7%		8%	5%
Moved to more flexible benefits package	2%		4%		6%		5%	8%
Introduced access to group benefits largely paid by employees	1%		1%		4%	6%	3%	4%
Introduced auto-enrolment to firm's scheme	1%		1%		1%		1%	2%
Contracted some / all members back into State Second Pension	5%	4%	4%	8%	9%	5%	8%	10%

Table 11: What 'normal' retirement age do schemes have?

SIZE OF FIRM	All	1-50 employees	51-150	151-250
Age 65	87%	90%	91%	78%
Ages 61-64	2%	-	3%	2%
Age 60	10%	10%	6%	18%
Below 60	1%	-	-	2%

Table 12: Have or are firms considering changing their 'normal' retirement age?

SIZE OF FIRM	Yes	No
1-50 employees	7%	93%
51-150	5%	95%
151-250	7%	93%
All	6%	94%

Table 13: What issues are most likely to influence thinking on pensions in the longer-term (responses split between those responding who have defined benefit or defined contribution scheme)?

	Very concerned		Quite concerned		Not concerned	
	DB	DC	DB	DC	DB	DC
Increasing burden on management time of running pension schemes	74%	38%	20%	45%	6%	17%
Impact of legislation on benefits and funding costs	71%	36%	26%	50%	3%	14%
Performance of investment markets	39%	32%	55%	52%	6%	16%
Pension reforms that might increase the take-up costs of running the firm's scheme	44%	22%	41%	54%	15%	24%
Increasing business competition will lead to pressures to reduce employer pension contributions	26%	16%	50%	33%	24%	51%
Administration of auto-enrolment of employees into firm's scheme or any new NPSS	6%	13%	67%	42%	27%	45%
Impact of accounting requirements	42%	NA	50%	NA	8%	NA
Increasing public profile of pensions will lead to more costly / complex pension related communications with employees	26%	19%	67%	64%	7%	17%
Pension reforms that might cause the firm to have to enrol employees into the proposed NPSS	10%	12%	41%	52%	49%	36%
Competition for staff will lead to a need to improve the firm's pension arrangements	0%	4%	14%	41%	86%	55%

Pension reform: National Pension Savings Scheme

Table 14: The National Pension Savings Scheme is likely to impact on pension strategy at almost all firms.

Overall, how do firms react to this proposal?

SIZE OF FIRM	Strongly in favour	Marginally in favour	Indifferent	Against	Strongly against
1-50 employees	14%	39%	17%	14%	16%
51-150	13%	49%	24%	7%	7%
151-250	10%	33%	42%	10%	5%
All	13%	43%	27%	9%	8%

Table 15A: Percentage of firms with pension scheme(s) that offer for all employees over age 21 a scheme that is at least as good as the proposed National Pension Savings Scheme (ie. firms contribute at least 3% on earnings between £5000 to £33000pa) and the combined employer and employee contribution (taking into account charges) is at least 8% of earnings (the proposed NPSS level).

A. SIZE OF FIRM	Yes	No
1-50 employees	22%	78%
51-150	55%	45%
151-250	57%	43%
All	49%	51%

If 'no' (to part 15A) do these firms offer a pension scheme that is restricted in who it is offered to (ie. not to all employees)?

B. SIZE OF FIRM	Yes	No
1-50 employees	29%	71%
51-150	30%	70%
151-250	45%	55%
All	33%	67%

If 'no' (to part 15A) do these firms or employees presently pay lower pension contributions into the firm's scheme than those that might be required into the proposed NPSS?

C. SIZE OF FIRM	Yes	No
1-50 employees	86%	14%
51-150	88%	12%
151-250	50%	50%
All	81%	19%

Table 16: For firms offering a pension scheme(s) at least as good as the NPSS: percentage of eligible employees that have or have not joined the scheme.

SIZE OF FIRM	Joined	Not joined
1-50 employees	58%	42%
51-150	62%	38%
151-250	64%	36%
All	62%	38%

Table 17: If firms run workplace pension schemes, how many auto-enrol employees into these scheme(s)?

SIZE OF FIRM	Yes	No
1-50 employees	13%	87%
51-150	14%	86%
151-250	4%	96%
All	12%	88%

Table 18: If auto-enrolment is introduced from 2010, what proportion of each firm's workforce are expected to opt-out?

SIZE OF FIRM	Higher than 40%	30-39%	20-29%	10-19%	Under 10%
1-50 employees	35%	26%	16%	13%	10%
51-150	25%	10%	15%	17%	33%
151-250	17%	19%	19%	12%	33%
All	25%	15%	16%	15%	29%

Table 19: If auto-enrolment is required by Government from 2010, what will be the likely response of firms?

	Yes
In 2010, we would probably opt-in all employees to the firm's existing defined contribution scheme	34%
In 2010, we would probably seek to offer the NPSS only to those that have not already joined the firm's scheme(s)	29%
By 2010, we would probably revise the firm's scheme(s) to mitigate against the increased cost of higher scheme membership post-2010	16%
By 2010, we would probably close our firm's scheme(s) so all employees would then opt-in to the NPSS	9%
In 2010, we would probably opt-in all employees to the firm's existing defined benefit scheme	4%

Table 20: If the NPSS goes ahead, and this led to an increase in costs, how do firms expect to meet the extra cost?

SIZE OF FIRM	All	1-50 employees	51-150	151-250
Firm would meet cost (ie. owner / shareholders)	22%	16%	21%	31%
Customers would have to meet cost (ie. increased prices)	12%	16%	12%	6%
Staff would have to meet cost (ie. reduced salaries or employment levels)	20%	24%	21%	15%
Combination of all three answers above	46%	44%	46%	48%

Pension reform: Retirement Age and State Pensions

Table 21: Firms: do you think that because of greater longevity, retirement ages should rise?

SIZE OF FIRM	Yes	No
1-50 employees	51%	49%
51-150	53%	47%
151-250	67%	33%
All	56%	44%

Table 22: Firms: do you think that your employees accept that because of greater longevity, retirement ages should rise?

SIZE OF FIRM	Yes	No
1-50 employees	22%	78%
51-150	30%	70%
151-250	33%	67%
All	29%	71%

Table 23: Firms: do you feel most employees accept that, given longer life-spans, a later State Retirement Age is inevitable?

SIZE OF FIRM	Yes	No
1-50 employees	22%	78%
51-150	64%	36%
151-250	61%	39%
All	56%	44%

Table 24: Firms: certain occupations and regional populations have average life-spans that are markedly lower than elsewhere. It has been argued these groups will lose out if the State Pension Age increases. How should public policy address this dilemma?

	Yes
State Retirement Ages should be the same for all. The problem of different life-spans is a public health, health & safety or life-style issue and should be dealt with by public policies designed to improve life-spans	71%
The Government's response should continue to allow employees to take a State Pension from age 65, but at a pro-rata reduced rate as the State Retirement Age increases	29%

Table 25: Firms: is it your perception that employees generally understand the present State Pension system?

SIZE OF FIRM	Yes	No
1-50 employees	21%	79%
51-150	13%	87%
151-250	30%	70%
All	19%	81%

Table 26: Overall, do firms feel that the State Pension reforms recommended by the Pensions Commission are simple enough to allow the public to better understand State Pensions?

SIZE OF FIRM	Yes	No
1-50 employees	27%	73%
51-150	44%	56%
151-250	35%	65%
All	39%	61%

Table 27: Overall, do firms believe that the proposed Pensions Commission structure will create clear incentives and an understandable base on which private saving can be built?

SIZE OF FIRM	Yes	No
1-50 employees	19%	81%
51-150	35%	65%
151-250	36%	64%
All	32%	68%

Table 28: Under the Pensions Commission's proposals in 2050, still close to 30% of pensioners will be in receipt of means-tested benefits as opposed to close to 40% today and 70% if there were no policy changes. Firms believe:

SIZE OF FIRM	All	1-50 employees	51-150	151-250
30% is too high a level and will continue to discourage private savings	80%	80%	79%	85%
30% of pensioners on means-tested benefits is an acceptable level and will not discourage private savings	20%	20%	21%	15%

Table 29: A number of organisations have argued that the Basic State Pension and S2P could be consolidated into one State Pension, indexed to follow earnings. Do firms think more work should be undertaken to explore this simpler option before a final decision is taken, even if this might lead to a higher cost and higher tax solution?

Yes	Yes, only if not higher cost/tax	No
48%	40%	12%

Table 30: Some people would argue that the Pensions Commission's recommendation to link the Basic State Pension to earnings is a dangerous move that could backfire if earnings inflation reappeared. Do firms believe the Basic State Pension should be:

Linked to prices	Linked to earnings	Linked to something else
43%	52%	5%

Pension reform: other issues

Table 31: Recently, the Government has agreed that existing public sector employees will continue to retire at age 60, with new employees thereafter retiring at age 65. How do you believe the Government should approach the retirement of its employees?

To set an example, it should raise the public sector retirement age for existing employees as and when there are changes in the State Retirement Age	57%
The decision on public sector retirement ages should fall within the remit of a standing Pensions Commission and their recommendations should take account of the changing practices in the private sector	24%
It should make no changes to its proposals. Public sector employees will not receive their State Pension until the same time as private sector employees	19%

Table 32: The Pensions Commission Report has recommended the retention of contracting-out for defined benefit schemes until at the latest 2030 (the approximate date when it is expected accruals to S2P become entirely flat rate). Do firms believe contracting-out is a valuable incentive supporting the continuation of defined benefit schemes?

Yes	No
42%	58%

Table 33: The Pensions Commission has recommended that for defined contribution schemes and personal pensions the contracting-out option should be removed. Do firms agree?

Yes	No
73%	27%

Table 34: Would firms prefer to see contracting-out replaced in the future by a direct financial incentive from government to employers who provide a workplace scheme with superior employer contributions to the NPSS proposal and / or who are prepared to share risks with employees?

Yes, if provide superior employer contributions	Yes, if employer shares risks	No
45%	15%	40%

Defined Benefit Schemes: status, deficits and investment issues

Table 35: Defined benefit schemes by firms' size

	1-50 employees	51-150 employees	151-250 employees
Percentage of defined benefit schemes in sample	9%	43%	48%

Table 36: Status of main defined benefit scheme

	All	1-50 employees	51-150	151-250
Open to new members	26%	13%	26%	29%
Open to future accrual	59%	41%	57%	64%
In the process of winding-up	-	-	-	-
Contracted out of S2P/SERPS	77%	66%	73%	82%

Table 37: Distribution of scheme membership

	Active	Deferred	Retired
Membership: by categories	32%	39%	29%

Table 38: Have firms been advised by the actuaries to their schemes that they are in deficit?

SIZE OF FIRM	Yes	Average ongoing funding level as a percentage of liabilities at the last actuarial assessment	Have scheme actuaries recommended an increase in contributions?
1-50 employees	100%	70%	92%
51-150	76%	66%	88%
151-250	86%	72%	92%
All	83%	69%	90%

If 'yes' what was the average employer contribution rate before and after the change?

Before	After
16%	23%

Has there been / will there be any increase in employee contributions?

Yes	No
41%	59%

If 'yes' what was the average employee contribution rate before and after the change?

Before	After
4.6%	6.8%

Table 39: Has there been any change in the accrual of benefits in the last year or so?

Move from 60ths to 80ths	6%
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Table 40: What is the expected period over which firms expect to remove their deficit?

Up to 5 years	6-9 years	10 years	11-15 years	Over 15 years
28%	8%	29%	27%	8%
Median		10 years		

In the light of the Statement issued by the Regulator are you considering further action to reduce any recovery period to 10 years or less?

Yes	No
67%	33%

(The Statement here refers to the draft of October 2005)

Table 41: Change in investment strategy of defined benefit schemes

Become more matched	Intend to become more matched	No change in strategy
38%	16%	46%

Table 42: Current split of pension scheme assets and anticipated change over next year

	Present	Change in next year		
		Increase	Decrease	No change
UK Equities	43%	5%	19%	76%
Overseas Equities	17%	9%	11%	80%
Gilts: fixed interest	13%	12%	2%	86%
Gilts: index linked	5%	11%	1%	88%
Corporate bonds	8%	8%	-	92%
Property	4%	10%	1%	89%
Private Equity	2%	5%	1%	94%
Hedge Funds	1%	4%	-	96%
With profits	2%	-	4%	96%
Cash/deposit	5%	6%	11%	83%
Other	-	-	2%	98%

Defined Contribution: status, investment and advice issues

Table 43: Spread of defined contribution schemes by firms' size*

	All	1-50 employees	51-150	151-250
Trust-based schemes	18%	8%	19%	18%
Group Personal Pensions	45%	59%	42%	43%
Stakeholder schemes	43%	43%	44%	42%

* Results exceed 100% as firms have more than one scheme

Table 44: Status of main defined contribution scheme

	All	1-50 employees	51-150	151-250
Open to new members	92%	95%	93%	90%
Open to future accrual	96%	90%	97%	95%
In the process of winding-up	1%	-	3%	-
Contracted out of S2P/SERPS	11%	17%	9%	11%

Table 45: Distribution of scheme membership

	Active	Deferred	Retired
Membership: by categories	84%	11%	5%

Table 46: Investment choices offered by schemes

	All	1-50 employees	51-150	151-250
UK Equity	95%	92%	95%	97%
Global Equity	79%	73%	77%	87%
Overseas Equity	73%	64%	73%	76%
Index linked bonds	66%	60%	69%	64%
Fixed interest bonds	66%	59%	70%	65%
Cash / deposit	96%	93%	95%	96%
With-profits	70%	82%	67%	68%
Mixed managed fund	92%	83%	92%	96%
Life-style	88%	54%	62%	76%
Other	10%	8%	11%	6%

Table 47: Schemes offering a default life-style fund

All	1-50 employees	51-150	151-250
46%	36%	41%	61%

Table 48: Fund options offered to members

	All	1-50 employees	51-150	151-250
Under 5	36%	53%	39%	24%
6 - 10	24%	34%	16%	32%
Over 10	40%	13%	45%	44%

Is more than one fund manager offered?

	All	1-50 employees	51-150	151-250
Only 1	64%	86%	65%	54%
2 - 10	34%	14%	34%	39%
Over 10	2%	-	1%	7%

Table 49: Schemes offering the choice to contract out of State Second Pension

All	1-50 employees	51-150	151-250
49%	50%	51%	47%

Table 50: Firms saying they provide financial assistance or an advisory service to members at retirement when they need to buy an annuity

All	1-50 employees	51-150	151-250
57%	43%	57%	63%

pensions - a divided nation: the challenge remains to be addressed...



A famous TV sketch re-visited, what our characters might say today...

Cleese: 'I look down on them (Barker and Corbett) because I'll retire at 60 on two-thirds final salary thanks to my public sector index-linked pension.'

Barker: 'I look up to him (Cleese) because he's got a pension paid by tomorrow's taxpayers come what may, whilst my private sector employer struggles to meet the increasing cost of providing a funded pension. I will be lucky to retire at 65. But I look down on him (Corbett) because my pension is still better than his.'

Corbett: 'I look up to him (Cleese) 'cos he's obviously much more important than me. He's got what I'll never 'ave. I look up to him (Barker) less 'cos his pension is a bit like mine - uncertain, because of shocks and scares. I know my place - first a 'stake-burger' pension, now a 'Nat-pss' one!'



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