

## **EMBARGO ON PUBLICATION UNTIL: 10 AUGUST 2006**

*Major survey finds workplace pensions in smaller firms - which employ well over half of the UK workforce - are under growing threat...Many small firms are considering further benefit changes because of management time and cost concerns...Proposed State Scheme reforms too complex and still over-reliant on means-testing...*

### **ACA SURVEY OF PENSIONS IN SMALLER FIRMS FINDS COST AND SIMPLICITY REMAIN KEY CHALLENGES AS FIRMS THREATEN TO LEVEL DOWN PROVISION**

**7 August 2006: A major survey of smaller firms'<sup>1</sup> pension provision amongst firms employing 250 or fewer employees, published today (10 August 2006), has found defined benefit coverage in steep decline in the sector coupled with evidence that small firms are also levelling-down to lower cost defined contribution schemes, such as Stakeholder and Group Personal Pensions.**

**Over half of these smaller firms have reviewed their pensions in the last 12 months or are doing so at present.**

**Close to two-thirds think the State Pension reforms proposed by the Pensions Commission (and largely endorsed by the recent *Pensions White Paper*) are too complex and still over-reliant on means-testing into the future. Firms say the State reforms will not create the clear understandable base upon which private savings can be built - the Government needs to look again at a simple consolidated State Pension.**

The survey, conducted by the **Association of Consulting Actuaries (ACA)**, underscores the deterioration in workplace pensions amongst smaller firms employing 250 or fewer people - firms that in total employ 58% of the UK workforce and which produce about a half of UK business turnover. Despite its importance in employment terms, the Government's recent Pensions White Paper, *Security in retirement: towards a new pensions system*, reported only 16% of firms in the sector offer any employer's contribution to a pension scheme or plan.

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<sup>1</sup> The survey, conducted by the Association of Consulting Actuaries (ACA), was completed by 462 firms, all employing 250 or fewer staff. For further details see *2006 Smaller Firms Pension Survey Report* attached or at [www.aca.org.uk](http://www.aca.org.uk) (What's New).

The main survey findings were as follows:

- **41% of smaller firms reviewed their pension arrangements last year, with 16% doing so at present.** 23% expect to review in the year ahead.
- **Looking to the future, the burden of management time lost in running pension schemes and the impact of legislation on benefits and funding costs are the two greatest concerns of firms whether they run defined benefit or defined contribution schemes** - although the level of concern is twice as high in those firms running defined benefit arrangements.
- **74% of defined benefit schemes in this smaller firms sector are now closed to new entrants with 41% also now closed to future accruals** - a figure much higher than the 10% figure reported amongst larger schemes in the ACA's *2005 Pension Trends Survey*.
- **The average ongoing funding level of these smaller defined benefit (usually final salary based) schemes is 69% (down from 80% reported in 2004), with over a third looking to a deficit recovery period of in excess of 10 years.**
- **Employer pension contributions into smaller firms' defined benefit schemes are close to 18% of earnings, with total contributions (including employees') of 24% of earnings.** Contributions into schemes with sizeable deficits are often considerably higher.
- **There is also evidence in the sector of closures of both trust-based defined contribution schemes (24% closed to new entrants) and some Group Personal Pensions (9% closed to new entrants) in favour of lower-cost (and generally lower coverage) Stakeholder plans.** Average combined employer and employee contributions range from 6% into stakeholder plans through to 10% into company defined contribution schemes.
- **Cost is reported as the key issue for both smaller firms and employees as to why pension schemes are not offered or taken up by employees.** Whilst auto-enrolment may increase pension coverage, there are strong financial pressures at work within these smaller firms and their employees that could still lead to high opt-out rates. A quarter of firms expect opt-out rates to exceed 40% of employees.

- **If the Government requires firms to auto-enrol all employees above age-22 into their firm's scheme to avoid having to set up an NPSS-type arrangement, 1 in 4 small firms say they will either revise their existing pension scheme to mitigate against the costs of higher scheme membership post-enactment of the reforms (16%) or will probably close their firm's scheme (9%).**
- **61% of firms say the Pensions Commission's State Pension reforms (which were largely incorporated into the recent *Pensions White Paper*) are overly complex**, with 68% saying that these do not create the clear incentive or understandable base upon which private savings can be built.
- **81% of firms say their employees do not understand the State Pensions system and 80% say that still having around 30% of retired people subject to means-testing in 2050 is far too high and will remain a big disincentive to private saving.**
- **88% of firms support more work on the idea of a consolidated State Pension** (combining the Basic State Pension and earnings-related S2P), although a sizeable group would not want such an outcome to add to costs or taxes.
- To set an example, **57% of firms say the Government should raise the public sector pension age for existing employees as and when there are changes to the State Pension Age.**

Commenting on the final survey report, **ACA Chairman, Ian Farr** said:

"The survey results underscore that businesses and their employees need to see a simple State Pension Scheme in place upon which to build any second-tier private pension. We welcome the commitment in the recent *Pensions White Paper* to raise the State Pension in line with earnings financed in part by raising the State Pension Age to reflect improvements in longevity. But, for simplicity's sake, a further look is needed at removing the Second State Pension (S2P) at greater speed and at ways to reduce means testing to a much lower level than proposed. Without swift action here, opt-outs may be high from any national pension savings scheme if those on lower incomes still think State benefits will be lost if they save for a small private pension.

"The other key conclusion is that workplace pension arrangements that are better than any State enforced minimum will only recover or take root in the smaller firms sector and elsewhere if the Government's commitment, made in the White Paper, to rolling back regulation and costs is followed through into genuine and significant easements to legislation and regulation.

"This survey has found many small firms are valiantly struggling to offer pension arrangements in the face of changes that have added greatly to costs in recent years. Any finalised reform that makes their lives more complicated is likely to be counter-productive. For instance, having to contribute to some employees' personal accounts, as part of a national pension savings scheme, alongside their existing pension arrangements, because they cannot afford all employees to be in the firm's scheme, could lead to a wholesale levelling-down of pension provision. This outcome would run counter to Government policy. Surely, we have had enough examples of adverse unintended consequences flowing from pension legislation over the last 20 years or so. We must avoid this happening again," added Ian Farr.

The ACA is providing input to the Government on the easements necessary to rejuvenate workplace pension arrangements. Amongst its proposals is a recommendation that the Government encourages a new generation of risk-sharing schemes (where employers and employees share longevity and/ or investment risk), where for future service automatic indexation of pension benefits is removed and pension age can be gradually adjusted to reflect further improvements in longevity.

The final report of the ACA's **2006 Smaller Firms Pension Survey** is available at [www.aca.org.uk](http://www.aca.org.uk) on the 'What's New' page (see 'Results of 2006 Smaller Firms Pension Survey'). Printed copies of the report are available from the ACA, Warnford Court, 29 Throgmorton Street, London EC2N 2AT or call 020 7382 4594.

For further details:	Ian Farr	01737 274654 (M: 07711 592924)
	Andrew Vaughan	020 7178 6927
	David Robertson	020 7382 4594 (M: 0777 4499611)

**Note to Editors:**

The **Association of Consulting Actuaries (ACA)** has over 1500 members working in around 80 firms. Members are advisers to UK pension schemes with assets in excess of £700 billion, including the vast majority of larger schemes and thousands of smaller arrangements. The ACA forms the largest national grouping of consulting actuaries in Europe.

**Bar-chart summary of survey results** attached (also available in pdf format for use by press)