



NEWS RELEASE

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Firms with up to 250 employees generate over half of the UK's business turnover and employ 59% of the working population. Their 9.6 million employees in over 1.2 million firms are generally under-pensioned with 80% of these businesses offering no workplace schemes. Where pensions are offered, there are some gloomy trends.

PENSIONS IN SMALLER FIRMS: SURVEY FINDS OVER 90% OF DEFINED BENEFIT SCHEMES ARE NOW CLOSED ... ALARM AT LOW SAVINGS INTO DEFINED CONTRIBUTION PLANS ... AFFORDABILITY OF LATEST PENSION REFORMS IN QUESTION

The full report of a survey on pension trends¹ in firms with 250 or fewer employees, published today (5 January 2009), has found 91% of defined benefit schemes in the sector are closed to new entrants and half are also closed to future accrual. Worryingly, savings into defined contribution schemes in the sector are much the same as in 1996, when this series of surveys started. As a result, given markedly lower investment returns and recognition of longevity improvements since then, pension outcomes for employees in small firms are likely to worsen significantly in up-coming years. Firms' concerns over the affordability of auto-enrolment are threatening existing schemes, with high opt out levels also predicted from 2012.

The UK's 1.2 million smaller firms employ around 9.6 million people, but with over 1 million of these firms employing 4 or fewer staff². **Around 80% of these firms currently offer no workplace pension scheme³.** They therefore represent one of the key target areas for the Government's pension reforms aimed at extending private pension coverage, whereby all employees from 2012 will be enrolled into either an exempt workplace scheme or the new personal accounts scheme⁴ (although employees will be able to opt out).

Commenting on the survey report, ACA Chairman, **Keith Barton**, said:

"Pensions in smaller firms are struggling to survive in hostile economic conditions. The majority of defined benefit schemes are in this sector, but the vast majority, 91%, are now closed to new employees and half to future accrual for existing members. This can be no surprise, given the significant increases in the cost of running such schemes, courtesy of lower investment returns, increasing life-spans and extra regulatory

¹ The survey, conducted by the Association of Consulting Actuaries (ACA), was carried out during June and July 2008. The survey was completed by 394 firms with 250 or fewer employees. For further details see *2008 ACA Smaller Firms Pension Survey Report* attached or at www.aca.org.uk (Publications).

² Department of Business, Enterprise and Regulatory Reform, statistics on sector dated 30 July 2008

³ *Security in Retirement: towards a new pensions system* published by DWP, May 2006, page 74

⁴ See Note for Editors at end of release on 'Personal Accounts'

requirements. However, it is striking that, just 12 years ago, our survey that year found 82% of defined benefit schemes were then still open to new entrants.

“Just as worrying, is the levelling-down of defined contribution schemes that has already taken place. We found 30% of ‘traditional’ trust-based schemes run by smaller firms are now closed, replaced in many cases by more lightly regulated contract-based schemes with lower contributions. At a time when contributions into defined contribution schemes need to rise to offset the impact of lower investment returns and longevity improvements, it is dismal news that contributions remain pretty flat - much the same as they were in 1996, when we started this series of surveys. Indeed, combined employer and employee contributions amongst the smallest firms, employing 50 or fewer staff, are generally below 8% of earnings. The result of this is that the pension outcomes today and into the future are looking increasingly inadequate. We need some serious new incentives to encourage higher levels of corporate and employee pension saving to levels well above 8% of earnings - realistically a figure of at least double that is needed to provide anything like a comfortable retirement. This is going to be a real challenge given the fiscal tightening likely in the period ahead, but it has to be addressed.”

The survey results also highlight the dangers of a further extension of levelling-down ahead of the introduction of personal accounts as smaller firms rationalise their pension offerings to meet the extra costs of auto-enrolment, due to be required of all employers from 2012.

“We found high levels of expected opting out from pensions, around 40% to 45% amongst the largest group of very small firms with 50 or fewer employees – these firms employ over 7 out of 10 of the sector’s 9.6 million employees. The concern must be that the deterioration in economic conditions since we surveyed is likely to increase the likelihood of opting out – affordability is seen as the key issue in the decision to run or save for a pension. Auto-enrolment and personal accounts would best take off when corporate and personal taxes are going down – a very unlikely situation now, even by 2012,” commented **Keith Barton**.

The *2008 ACA Smaller Firms Pension Survey*, collected responses from over 394 employers, all with 250 or fewer employees. Key findings featured in the report are as follows:

- **defined contribution savings are below 8% in smallest firms**
where a workplace scheme is offered in firms employing 50 or fewer staff, average combined employer and employee savings into defined contribution schemes are below 8% of earnings. 55% of small firms say their current pension schemes would fail the personal accounts exemption test (this rises to 69% amongst firms with 50 or fewer employees).
- **open defined benefit schemes are all but extinct in the sector**
91% of the defined benefit schemes in these smaller firms are closed to new entrants with half closed to future accruals. In 1996, only 18% were closed to new entrants. No firms are prepared to auto-enrol into a defined benefit scheme from 2012.
- **defined benefit funding levels up and deficit recovery periods down, but...**
average ongoing funding levels as a percentage of liabilities have improved to 75% (from 69%, two years ago) with deficit recovery periods reducing – the median being 8 years (from 10 years, two years ago). But the rapid deterioration of the economy after these results were collected, suggests a backward step as new actuarial valuations are reported.

- **one-third of firms say they will level-down pensions ahead of 2012**
31% of firms expect to reduce their pension scheme benefits (to mitigate the cost of higher auto-enrolled membership) or to close their existing scheme in favour of personal accounts. This figure rises to 38% amongst firms employing 50 or fewer employees.
- **opt outs from personal accounts are expected to be high**
the smallest firms with an existing scheme or with no scheme expect opt out levels by individual employees to exceed 40%. Affordability is seen as the principal reason that is likely to drive opt out decisions, not the loss of means-tested benefits in retirement.

ACA Chairman, **Keith Barton**, added:

“The survey results are pretty gloomy, especially given the serious economic deterioration in the last few months. Small firms are huge employers of our people and it is right the Government is seeking to bring workplace pensions into a sector where they are still a rarity. Auto-enrolment and personal accounts will harness new pension savers, although they are likely to impact on existing schemes and much remains to be done to sort out how they will run. We doubt, however, that these reforms are now enough. Much confidence has been lost in savings vehicles over the last few months and years and the expected higher taxes at the end of this recession, bodes ill for employers and employees finding more financial room to make higher pension contributions. New incentives need to be examined and carefully crafted to promote long-term pension savings, otherwise State income support will grow, not diminish”.

The ACA's **2008 Smaller Firms Pension Survey report** is available at www.aca.org.uk on the '**Publications**' and '**Research**' pages. This includes as an appendix the full statistical tables behind the report. Printed copies of the report are available from the ACA, Warnford Court, 29 Throgmorton Street, London EC2N 2AT or call 020 7382 4594.

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Note to Editors:

About the Association of Consulting Actuaries (ACA)

The **Association of Consulting Actuaries (ACA)** is the representative body for consulting actuaries, whilst the Faculty and Institute of Actuaries are the professional bodies. The ACA has over 1650 members working in around 80 firms. ACA Members are all qualified actuaries and are subject to the code of professional conduct of the Faculty and the Institute of Actuaries. Advice given to clients is independent and impartial. The ACA forms the largest national grouping of consulting actuaries in the World.

Personal accounts and auto-enrolment

Under the 2007 and 2008 legislation, firms that wish to be exempted from offering **personal accounts** must meet minimum contribution or benefit standards and auto-enrol all employees aged over 22 and under state pension age into an exempt pension scheme (existing or new). To secure exemption from personal accounts, an employer's scheme must be at least as good as the personal accounts minimum standard, with an employer's contribution of at least 3% and an employee's contribution of 4% of band earnings (between approximately £5,435 and £36,000 per annum (2008/09 figures), plus 1% tax relief, making 8% of band earnings in total. Note, the calculation is based on overall earnings, including items such as overtime, bonuses and commission, not just basic salary. Contributions are to be phased in over a three-year period, at present, from 2012.