



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 million employees in over 1.2 million businesses are generally under-pensioned and are a key target for the Government's new personal accounts, but has the benchmark been set too high?

ACA SURVEY FINDS PERSONAL ACCOUNTS ARE LIKELY TO LEAD TO WIDESPREAD REVIEW OF PENSIONS IN SMALLER FIRMS: MAJORITY OF FIRMS SAY EXISTING SCHEMES WILL FAIL EXEMPTION TEST

4 September 2008: The first report of a survey on pension trends¹ in firms with 250 or fewer employees, published today (4 September 2008), has confirmed that personal accounts and auto-enrolment into pension schemes should boost pension coverage in the UK smaller firms sector, but the reforms are also likely to cause widespread levelling-down and closures of existing schemes. Firms responding to the survey, conducted by the Association of Consulting Actuaries (ACA), said 55% of the schemes they presently run would fall short of the personal accounts exemption test.

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 results, ACA Chairman, **Keith Barton**, said:

"Our latest survey in the sector points to the huge challenges there are in achieving wider pension coverage in smaller firms. Yes, it is very clear that there is a huge under-pensioning of millions of employees, but our survey suggests the benchmark set by the Government may weigh very heavily on smaller firms,

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 survey Report 1* 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'

particularly if economic conditions are not good at the time auto-enrolment and personal accounts are launched.

Of particular concern is firms' expectation as to how many of their current pension schemes will fall short of exemption from personal accounts, and the scheme reviews and levelling-down that might therefore occur, alongside high opt-out levels by individuals. Whilst a phased introduction of the reforms will help, we do wonder whether the minimum benchmark for smaller firms has been set too high. The viability of running a low-charge scheme across over 1 million employers, with minimal red tape, also remains to be resolved."

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:

- **majority of existing smaller schemes would fail personal accounts exemption test**
55% of firms say their current pension schemes would fail the personal accounts exemption test, with over 60% paying lower contributions than proposed for personal accounts, particularly amongst the smallest firms.
- **pension contributions are well below 8% in smallest firms**
where a workplace scheme is offered in firms employing 50 or fewer staff, average combined employer and employee pension contributions are below 5% of earnings (and only around 1 in 5 of these 1.2 million firms run such a scheme).
- **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 likely to drive the opt out decision, not the loss of means-tested benefits in retirement.
- **one-third of firms say they will level-down**
31% of firms expect to reduce their pension scheme benefits (to mitigate the cost of higher membership) or to close their scheme in favour of personal accounts.
- **open defined benefit schemes are all but gone from sector**
over 90% of the defined benefit schemes in this sample of smaller firms are closed to new entrants with half closed to future accruals. No firms are prepared to auto-enrol into a defined benefit scheme.

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

"The survey results suggest the Government might reasonably expect between 4 to 6 million extra pension savers through auto-enrolment and personal accounts, but because 'affordability' is judged to be the principal motivator in the opt out decision, the economic conditions at the time of introduction could have a big impact, either way. Ideally, Government would best launch auto-enrolment and personal accounts alongside a move to lower personal and corporate taxes. That would require quite a turnaround in economic conditions by 2012."

The ACA's **2008 Smaller firms pension survey report 1** is available at www.aca.org.uk on the 'Latest publications' and 'Research' pages. 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.