



## **EMBARGO ON PUBLICATION UNTIL 4 DECEMBER 2003**

*The latest ACA survey of pension trends in smaller firms employing 250 people or less – firms that employ over 55% of the UK labour-force and produce 52% of UK business turnover – has found many are switching to lower cost Group Personal Pensions and Stakeholder schemes and away from higher cost defined contribution and defined benefit schemes...*

### **SURVEY FINDS RECORD LEVEL OF SCHEME REVIEWS AS SMALLER FIRMS LOOK TO REDUCE PENSION COSTS IN FACE OF RISING COSTS AND DISILLUSIONMENT**

**2 December 2003 – By the end of this year, nine out of ten smaller firms offering a pension scheme will have reviewed their arrangements over the last 2 years as pension costs and employee disillusionment with pensions has risen. Just over one-third of defined benefit schemes remain open to new members. Both firms and an increasing number of employees are making substantially increased contributions. There are signs that an increasing number of smaller firms are switching to lower cost Group Personal Pensions and Stakeholder schemes – often with no employer contribution – and away from trust based occupational defined contribution schemes. These are some of the preliminary results of the Association of Consulting Actuaries (ACA) biennial 2003: *Pension trends in smaller firms: the divided Nation* survey, conducted in the summer of 2003, which attracted 459 responses.**

“Whilst the Government can draw some comfort from the findings amongst those firms offering defined benefit schemes – 58% support the establishment of the Pension Protection Fund, many of the other findings draw into question the

success of government policy in terms of encouraging wider and deeper occupational pension provision,” commented ACA Chairman, Gordon Pollock.

### Key survey findings:

- **Group Personal Pensions (GPPs) – attracting average combined employer and employee pension contributions of 8.6% – are now the prevalent type of pension arrangement in these smaller firms.** 44% of firms offer such arrangements, with 25% only offering a GPP.
- **Many firms have also established stakeholder schemes (37%) either alongside other arrangements or as stand alone schemes, 44% of which are attracting no employer contribution.** Average combined employer and employee contributions are just 4.8% of earnings into these schemes.
- **There is evidence from the survey that a few firms are marginally increasing employer contributions into defined contribution arrangements,** usually by 1% or less, but few employees are increasing contributions (indeed some are reducing them) in response to lower investment returns.
- **Where defined benefit schemes are offered in smaller firms (29%), only 36% are open to new members.**
- **Combined employer and employee contributions into defined benefit schemes now average 21% of earnings, up 2.1% on a year ago.**
- **Three-quarters of defined benefit schemes have been recommended to increase their contributions by their actuary because the scheme is in deficit and over one-third have increased employee contributions,** mostly by around 1% of earnings. Around 1 in 10 schemes have changed their accrual rate, with a move from 60ths to 80ths being the most common.
- **Employer contributions into defined benefit schemes average close to three times those made by firms into defined contribution and GPP schemes, and six times those into Stakeholder schemes.**
- **All firms say the ‘bad press’ given to pensions over the last 2 years, largely due to the effects of falling investment returns and demographic**

**changes, has undermined the promotion of pension saving and has undermined the perceived value of schemes or setting up schemes.**

- **However, this ‘bad press’ has largely left interest in pensions at a low level (14%) in firms not offering a scheme, as against the situation in firms offering a pension scheme, where 60% report greater interest.**

Answering questions about the Government pension reform proposals that are set to appear in the new *Pensions Bill*, as well as support for the Pension Protection Fund (58%), firms say there is:

- **support for the extension of TUPE to private sector pensions (65%) and Limited Price Indexation on forward pension increases restricted to a maximum of 2.5% pa (71%). However, 64% oppose scheme trustees having the power to wind up a scheme, whether the employer wishes to or not.**
- **support for the Pension Protection Fund will however be judged by the cost of the levy. 64% of schemes say that a cost of £15 per defined benefit scheme member per year would be ‘too much’, with close to half saying even £5 per head is too much. A majority (54%) want the levy significantly to reflect the degree to which schemes are well funded (low levy) or poorly funded (high levy).**

Commenting on the survey findings, ACA Chairman, Gordon Pollock added:

“Smaller firms represent more than half of the UK in terms of employment and business turnover, so it’s important we monitor what’s going on in pension terms. The trend decline in defined benefit mirrors what has gone on in larger firms, where they were always more prevalent. However, it is encouraging how many smaller firms and their employees are digging deep to keep these arrangements going.

More disturbing, perhaps, is the outcome of scheme reviews in the sector where lower cost defined contribution schemes seem to be setting the pace. My concern here is that contributions into these schemes are worryingly low, accepting that this is offset – but only a little - by the fact that these schemes are predominantly contracted-in and members will draw higher State pensions. The danger of a divided Nation with public sector workers and a diminishing number

of private sector workers enjoying good pensions, set against millions of people with poor pensions is fast becoming a reality within a generation. I don't think the government has yet grasped the enormity of the political issue or the imaginative responses needed to address what is a genuine pensions crisis."

Copies of the preliminary ACA report *2003: Pension trends in smaller firms pensions: the divided Nation* are available from the ACA, No 1 Wardrobe Place, London EC4V 5AG or at [www.aca.org.uk](http://www.aca.org.uk) (go to 'Home / What's New' page).

<b>For comment:</b>	Gordon Pollock	020 7977 8647
	Andrew Vaughan	020 7977 8427
	David Robertson	020 7248 3163
	(Survey data)	(Mobile: 0777 4499611)

#### **Note for Editors:**

##### ***ACA 2003: Pension trends in smaller firms: the divided Nation***

In the summer of 2003, the ACA undertook its fourth biennial survey on pension trends in smaller firms employing 250 staff or less. The survey attracted responses from 459 firms, selected on a random basis. As part of the survey, employers offering defined benefit schemes were invited to comment on the government's proposals to introduce a Pension Protection Fund and various simplification measures affecting these types of schemes, published on 11 June 2003. These measures form the centrepiece of the *Pensions Bill* announced in the Queen's Speech on 26 November 2003. The preliminary results are available at [www.aca.org.uk](http://www.aca.org.uk) (go to 'Home / What's New' page and scroll down).

##### **The Smaller Firms Sector**

The smaller firms sector – firms employing 250 or fewer staff – is the largest part of the UK economy. It employs 55.6% of the working population and generates 52% of business turnover – some £2,200 billion per year (latest DTI figures: August 2003). These smaller firms make up 99.1% of UK enterprises – there are only 7,000 businesses including public corporations and nationalised bodies (but excluding Government) that employ over 250 staff.

The importance of pension trends in the smaller firms sector is clear in terms of the coverage of employees and the potential of some of these firms to be the larger firms of the future.