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As Parliament debates the Government's latest proposals designed to promote occupational pensions, the ACA's latest survey finds employers are sceptical about what the proposals will achieve...

SURVEY PAINTS PICTURE OF A 'DIVIDED NATION' IN PENSIONS, WITH EMPLOYERS SAYING THE LATEST GOVERNMENT REFORMS WILL FAIL TO BOOST PROVISION

17 May 2004 – Government measures designed to promote occupational pensions are more likely to discourage provision and are expected to add to employers' costs. These are the startling findings of the latest survey conducted by the Association of Consulting Actuaries (ACA) following the publication of the Government's *Pensions Bill* in March 2004. The survey report paints a picture of a 'divided nation' in pensions, with those fortunate enough to be covered by defined benefit schemes – an increasing number of public sector workers (supported by the taxpayer) and those private sector firms that are able and willing to bear the costs and liabilities – enjoying greater certainty over their pension future. Set against this, are a growing number of employees of all ages taking on greater investment risk, supported by generally low levels of contributions.

The report, *2004 Smaller Firms Pensions Survey: a Divided Nation*, published today, is based on a survey of 459 smaller firms employing up to 250 people – the sector that generates over half of the UK's business turnover and employment. It reports on reactions to the *Pensions Bill* and the changing face of pension provision in the sector.

Reporting on employers' reactions to the measures in the *Pensions Bill*, the survey found:

- **Following the publication of the *Pensions Bill* a majority of firms (51 per cent) feel its measures will decrease occupational pension scheme coverage. Fewer than 1 in 10 firms feel the measures will improve coverage.**
- **Close to 9 out of 10 firms say the Bill's measures will either add to costs (49 per cent) or make no difference (38 per cent) as against the Government's claims that there will be £130 million savings.**
- **Support for the Pension Protection Fund has grown to 8 out of 10 firms. However, support will be judged by the per head levy that schemes are charged to fund the scheme. 64 per cent of schemes say that a cost of £15 per defined benefit scheme member would be 'too much', with not far short of a half saying even £10 per head is too much.**
- **Firms broadly support the introduction of a flat-rate based levy in year one, with the levy ultimately being at least 50 per cent based on risk factors.** Although a clear majority, fewer firms are happy that the risk factors should include the credit rating of the sponsoring firm or the scheme's investment strategy.
- **Three-quarters of firms believe public sector schemes should contribute to the levy and a broadly similar number feel that the rules should not allow the total levy to be increased by as much as 25 per cent in one year.**
- **Firms broadly support the proposed PPF benefits package, but very close to a half say that the proposed 100 per cent uncapped pension for pensioners who have reached normal retirement age is 'too high'.**
- **Over three-quarters of firms say the new 'knowledge and understanding' requirement placed on trustees will deter individuals from wishing to be trustees.**
- **A majority of firms oppose the Government having enabling powers (as provided for in the Bill) to require trustees to provide combined benefit**

statements or to require employers to provide access to information and advice about pensions and saving for retirement.

Commenting on these findings, ACA Chairman, Gordon Pollock said: “Whilst there is a genuine desire to better protect pensions through the Pension Protection Fund, our respondents seem to have few illusions that the extra regulation involved will deter wider coverage, rather than encourage wider provision – the Government’s stated aim”.

The survey found both encouraging and disturbing trends in pension provision in the smaller firms sector. Key findings were as follows:

- **The survey found a very high level of scheme reviews.** Within a period of 2 years, over 9 out of 10 firms will have reviewed their pension arrangements, the most marked trend being the closure of defined benefit schemes to new entrants, or one or more schemes being placed in wind up.
- **Where defined benefit schemes are offered in smaller firms (29 per cent), only 36 per cent are now open to new members. Combined employer and employee contributions into defined benefit schemes now average 21 per cent of earnings, up 2.1per cent on a year ago.**
- **Only just over a third of defined benefit schemes have changed their overall asset allocation in the last 2 years and fewer have changed their investment manager(s).**
- **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 per cent of earnings.** Around 1 in 10 schemes have changed their accrual rate, with a move from 60ths to 80ths being the most common.
- **The ‘contribution gap’ – the difference between the combined employer and employee contribution into defined benefit and defined contribution schemes – has grown over the last 3 years since the last ACA survey of the sector in 2001.** Employer contributions into defined benefit schemes now average close to three times those made by firms into defined contribution and GPP schemes, and six times those into Stakeholder schemes.

- **Group Personal Pensions (GPPs) – attracting average combined employer and employee pension contributions of 8.6 per cent – are now the prevalent type of pension arrangement in these smaller firms.** 44 per cent of firms offer such arrangements, with 25 per cent only offering a GPP.
- **There is considerable interest, particularly from firms not offering pension schemes (42 per cent), in multi-employer schemes.**
- **Many firms have also established stakeholder schemes (37 per cent) either alongside other arrangements or as stand alone schemes, 44 per cent of which are attracting no employer contribution.** Average combined employer and employee contributions are just 4.8 per cent 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 1per cent or less, but few employees are increasing contributions (indeed some are reducing them).
- **Only just over a half of defined contribution schemes offer fixed interest bonds or index linked bonds as an investment choice and around 20 per cent offer no default investment option for either employer or employee contributions.**
- **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, has undermined the perceived value of schemes and has discouraged the setting up of new schemes.**
- **This bad press has largely left interest in pensions at a low level (14 per cent) in firms not offering a scheme,** as against the situation in firms offering a pension scheme, where 60 per cent report greater interest.

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

“Overall, the picture we see is of a ‘divided nation’ in pensions, with those fortunate enough to be covered by defined benefit schemes – an increasing number of public sector workers and those private sector firms able and willing to bear the costs and liabilities – enjoying greater certainty over their pension future. Set against this, are a growing number of employees of all ages taking on greater investment risk, supported by generally low levels of contributions. Worse still, we then have, through the absence (and decline) of occupational provision, a

further large grouping of our citizens becoming dependent on State guarantees that deter savings but which, over the longer-term, are probably unreliable or unsustainable”.

Copies of the ACA report *2004: Smaller Firms Pensions Survey: a Divided Nation* are available from the ACA, No 1 Wardrobe Place, London EC4V 5AG or at www.aca.org.uk (go to 'Home / What's New' page).

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Note for Editors:

ACA 2004: Smaller Firms Pensions Survey: a Divided Nation

In the autumn 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. A follow-up survey was conducted in March 2004 to gauge views on proposals in the *2004 Pensions Bill*. The report and results of both surveys are now available at 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 per cent of the working population and generates 52 per cent of business turnover – some £2,200 billion per year (latest DTI figures: August 2003). These smaller firms make up 99.8 per cent 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.