



## **EMBARGO ON PUBLICATION UNTIL TUESDAY 3 JANUARY 2012**

*Over 5 million public sector employees enjoy 'open' defined benefit pension schemes, with fewer than 2 million private sector employees now in largely 'closed' schemes...*

### **MAJOR SURVEY FINDS GULF BETWEEN PRIVATE AND PUBLIC SECTOR PENSIONS IS GROWING WITH 9 OUT OF 10 PRIVATE DEFINED BENEFIT SCHEMES CLOSED...AND MORE CLOSURES ON THE WAY**

3 January 2012 – With 5 million public sector employees being offered pensions ‘far better than people in the private sector’<sup>1</sup> in the latest public service pension negotiations, key findings of the final report of the *2011 Pensions trends survey*, conducted by the Association of Consulting Actuaries (ACA), suggest the gulf between private and public sector pensions is set to grow in a tough economic climate, prompting the ACA to call for the Government’s promised paper in the New Year on ‘reinvigoration workplace pensions’ to be bold.

#### **Key ACA survey findings are:**

- **Nine out of ten private sector defined benefit schemes are now closed to new entrants and four out of ten closed to future accrual (half of these closing in the last year alone).**
- **25% of private sector employers are now looking to buy-out (or buy-in) all their defined benefit scheme liabilities in the next five years, rising to 40% within a decade.**
- **Only just over a quarter of employers have budgeted for the cost of workplace pension auto-enrolment which begins in stages from October 2012.**
- **Whilst around three-quarters of employers say they are likely to auto-enrol all employees into their existing workplace pension scheme(s), 27% say they are likely to review their existing pension benefits to mitigate the cost of higher scheme membership.**
- **In all three areas of investment, longevity and inflation risk, at least half of the employers responding to the survey say that employers should share or take on a majority of these pension risks.**
- **A clear majority of employers currently operating defined contribution schemes are presently reluctant to move to large, multi-employer schemes.**

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<sup>1</sup> Rt Hon David Cameron MP, Prime Minister’s questions, 2 November 2011, Col 915, “I can tell the House that low and middle-income earners will actually get more from their public sector pensions, everyone will keep what they have built up so far, anyone within 10 years of retirement will see no change to their pension arrangements and, **at the end of all this, people in the public sector will still get far better pensions than people in the private sector**”.

Whilst the ACA survey report notes that few small employers are in a position to level-down pension provision as most offer no workplace pensions at present, the survey found a third of larger employers are considering such a move. The worsening economic climate since the summer has heightened employer concerns over rising pension costs, says the ACA.

Conducted over the summer, the ACA survey is one of the country's largest surveys of employers of all sizes, gathering responses from 468 employers, running over 560 pension schemes with combined assets exceeding £114 billion.

### **Other survey highlights:**

- **Overall, a fifth of employers are looking to decrease their pension spend, balanced by 14% aiming to increase spend. A third of larger employers<sup>2</sup> say they are looking to decrease their spending on pensions.**
- **Over the last three years, 21% of employers report that member opt-outs from workplace pension schemes have increased.**
- **Employers responding to the survey report average contributions into defined contribution schemes have changed very little over the last decade – contribution rates are generally failing to keep pace with the pension costs of longer life-spans and lower investment returns.**
- **Despite a near doubling in employer pension contributions over the last decade, close to a third of employers (31%) expect to take over ten years to remove their defined benefit scheme deficits.**
- **Only just over a quarter of employers (26%) say they have budgeted for the costs of auto-enrolment, with this falling to one in seven amongst employers with 49 or fewer employees. On average, budgets are based on estimates of 25% of employees opting-out of workplace pensions following auto-enrolment, but with smaller employers estimating between 30-40% of employees will decide to opt-out.**
- **Whereas, at present, over nine out of ten employers say their employees retire at age 65 or younger, in under a decade close to four out of ten employers expect the typical retirement age to be 67 or later. One in six employers expect typical retirement ages to move out to between age 68 to 70 by 2020.**
- **Upwards of eight out of ten private sector employers support the recommendations made by Lord Hutton that public service pensions should be scaled back (85%), that member contributions should increase (79%) and that the pension age in such schemes should increase to the State Pension Age (91%).**

Commenting on the survey results, **ACA Chairman, Stuart Southall** said:

“Auto-enrolment, beginning in late 2012, should widen private sector pension coverage, particularly where no pensions are offered at present, but the fact that recently the Government had to delay its introduction for smaller employers, because of the deteriorating economic climate, is discouraging.

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<sup>2</sup> Employers with 250 or more employees

“Set against this, the Government is at last waking up to the reality of how low morale is in the private sector pensions world and we understand it is looking to produce a paper in the New Year examining how workplace pensions can be ‘reinvigorated’. The preparedness of some employers to share risks, echoed by our survey, and the endorsement of this approach by the recent *Workplace Retirement Income Commission*, needs to be followed up with some urgency as part of this reinvigoration agenda.

“However, it is very difficult to see what can be done to turn the tide in the near-term given the austerity backcloth, coupled with the economic woes we are likely to face for a number of years to come.

“Inevitably any fresh initiative to boost pension savings will require both an easing in regulatory controls and, in all probability, new incentives to encourage employers and employees to take up the challenge and opportunities. The Government needs to be bold in helping private sector employers so they can consider new ways to boost pension savings over the mid to longer-term so public sector pensions are not ‘far better’. A more level playing field as between private and public sector pension provision is clearly a sensible aim but it is possible that the current Government attempts to achieve this have already been undermined by the seismic collapse of private sector pensions and, in both sectors, it seems probable that the later the cure the stronger will have to be the medicine.”

**The ACA Pensions trends survey report - *Workplace pensions: challenging times* is available at [www.aca.org.uk](http://www.aca.org.uk) (go to: ‘Recent Publications’ on home page).**

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### **Note for Editors**

**A full executive summary** of the *2011 ACA Pension trends* survey report is **attached**.

**The complete report** *Workplace pensions: challenging times* is available on the ACA website at [www.aca.org.uk](http://www.aca.org.uk) (go to: ‘Recent Publications’ on home page).

A **Statistical supplement** is also available on the ACA website (go to: ‘Research’ page).

### **About the Association of Consulting Actuaries (ACA)**

The **Association of Consulting Actuaries (ACA)** is the representative body for consulting actuaries, whilst the Institute and Faculty of Actuaries is the professional body. The ACA has 1,750 members working in around 75 firms. ACA Members are all qualified actuaries and all actuarial advice given by members is subject to the Actuaries’ Code. The ACA forms the largest national grouping of consulting actuaries in the world.

## Note for Editors

### 2011 ACA Pension trends survey: full executive summary

#### Today's pension provision and trends

- The predominant types of scheme provided by the 468 employers responding to the survey are Group Personal Pensions, Stakeholder and Trust based defined contribution schemes.
- Where final salary schemes are provided, 91% are closed to new entrants with 37% of these also now closed to future accrual of benefits (of these 21% closed to future accrual in the last 12 months).
- Membership participation in workplace pensions varies between 45% - 70% of employees, with Stakeholder pension participation lowest at, on average, 45% of eligible employees. Over the last 3 years, 21% of employers report that employee opt-outs from schemes have increased.
- In the last year, a fifth of defined benefit schemes have closed to future accrual for existing members and a similar number have switched from RPI to CPI benefits indexation. One in ten have amended early retirement terms, reduced benefit accrual rates or have increased their normal retirement age.
- Whereas, at present, over nine out of ten employers say their employees retire at age 65 or younger, in under a decade close to four out of ten employers expect the typical retirement age to be 67 or later. One in six employers expect typical retirement ages to move out to between age 68 to 70 by 2020.
- 30% of employers are either presently reviewing their pension arrangements or will do so in the year ahead, with a further 19% having completed a review in the previous year.

#### Pension spend and contributions

- 47% of employers do not have a target for their pension costs, but 43% are targeting employer pension costs of 4% of payroll or more. However, amongst employers with 49 or fewer employees – where the bulk of private sector firms are found – only just over a quarter (28%) are looking to a pension spend at or above this 4% level.
- Overall, 19% of employers are looking to decrease their pension spend, balanced by 14% aiming to increase their spending on pensions. A third of larger employers say they are looking to decrease their spending on pensions.
- Employers responding to the survey report average combined employer and employee contributions into defined contribution schemes ranging between 7½% and 13% of earnings. Average combined employer and employee contributions into defined benefit schemes remain at over double these levels at 27% of earnings.

#### Defined contribution schemes

- 83% of defined contribution schemes offer a default investment strategy and six out of ten offer 11 or more fund options.
- Six out of ten employers offer assistance to retirees purchasing an annuity, predominantly making broking services available.
- Over a half of smaller employers (with 249 employees or less) do not agree with the Government and the Pensions Regulator encouraging employers with small schemes to merge these into larger multi-employer arrangements.

## Defined benefit schemes: funding and the future

- The defined benefit schemes in the survey sample reported that their funding level was on average 77% as a percentage of liabilities at the last actuarial assessment, slightly lower than two years ago.
- 31% of employers said they expected the removal of their scheme deficits to take 11 years or more.
- Three-quarters of employers said that their relationship with the Pensions Regulator had become 'more difficult' or 'challenging' as monitoring had become more active.
- A quarter of employers are looking to buy-out or buy-in all of their defined benefit liabilities within the next 5 years, with this rising to four out of ten within 10 years. Within 5 years, over four out of ten are looking to partial buy-outs or buy-ins.
- Over a third of employers expect to manage their defined benefit scheme liabilities over the next three years by offering enhanced transfer values (28%) or pension increase exchanges (8%).
- Over the last year, schemes say they have on average reduced their investment in UK and overseas equities, property, derivatives and hedge funds, whilst increasing their exposure to gilts, corporate bonds and emerging markets.
- One in ten schemes presently utilise delegated investment management, with a similar number presently considering such an approach.

## Auto-enrolment and NEST

- 22% of employers currently auto-enrol employees into at least one of their schemes, although this figure drops to one in ten amongst employers with 249 or fewer employees.
- 72% of employers said they are aware of the date when they must auto-enrol 'eligible jobholders' into a qualifying scheme between 2012 and 2016 (but this has now been thrown open, with staging dates for those employing fewer than 3,000 employees now subject to review).
- Just over a quarter of employers (26%) say they have budgeted for the costs of auto-enrolment, with this falling to one in seven amongst employers with 49 or fewer employees. On average, employers' budgets are based on estimates of 25% of employees opting-out of the workplace pensions into which they have been auto-enrolled, but smaller employers are estimating higher opt-out rates of between 30-40% of employees.
- 73% of employers say they are likely to auto-enrol all employees into their existing workplace pension scheme(s), with 21% saying they are likely to enrol all employees into a new scheme. A fifth may restrict entry into their existing scheme and auto-enrol the balance of employees into NEST. Between 5% - 7% are likely to close their scheme and auto-enrol all employees into NEST, or will use NEST as a foundation scheme.
- 27% of employers say they are likely to review their existing pension scheme benefits to mitigate the cost of higher scheme membership as a result of auto-enrolment, with this rising to over a third (35%) amongst the largest employers.

## Other pension reforms

### Risk sharing

- In all three areas of investment, longevity and inflation risk, at least half of the employers responding to the survey say that employers should share or take on a majority of these pension risks.

### Changes to Pension ages

- 56% of employers support the proposal that further increases in State Pension Age should be linked automatically to average increases in life-spans as reported on by an independent body, although the majority of larger employers would prefer that any recommendations be made subject to a final decision by Government.
- 64% of employers say they want a statutory override that would enable them to adjust their scheme pension age automatically as life-spans extend. The ability to move automatically in line with State Pension Age is the most popular approach (39%).

### Defined benefit contracting-out and indexation

- 14% of employers running a defined benefit scheme said the abolition of contracting-out would bring forward a decision to close the scheme to future accrual, with a further 25% saying 'it might'.
- Just over a half of employers said that sponsors should have a statutory over-ride to change scheme indexation rules to overcome problems with current scheme rules, with 58% saying sponsors should also have discretion to hold back indexation where a defined benefit scheme is in deficit.

### Public service pensions

- Upwards of eight out of ten employers support the recommendations made by Lord Hutton that public service pensions should be scaled back (85%), that member contributions should increase (79%) and that the pension age in such schemes should increase to the State Pension Age (91%). Over half (56%) support the continuation of defined benefit provision for public service employees but, of these, only 16% support the continuation of existing – in the main – final salary schemes.

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### Executive summary produced by

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The Full report of the 2011 ACA Pension trends survey is available at [www.aca.org.uk](http://www.aca.org.uk)

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