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With a Pensions Green Paper about to be published, the ACA's 2002 Pension Trends Survey highlights the dramatic slump in occupational pensions...

MAJOR SURVEY FINDS OVER HALF OF FINAL SALARY SCHEMES CLOSED TO NEW STAFF

13 November 2002 – With now over half of the country's final salary pension schemes closed to either new entrants or future accruals, there is an "essential need" for new incentives to be offered, going beyond simplification, to bolster occupational pensions in the forthcoming Pensions Green Paper. This is one of the key conclusions of the 2002 Pension Trends Survey preliminary report published today by the Association of Consulting Actuaries (ACA), whose members advise thousands of UK pension schemes.

The key findings of this preliminary ACA survey (a full report will be published once views from respondents have been sought to the government's Green Paper proposals) are as follows:

- **32 per cent of employers are 'at present' reviewing their occupational pension arrangements (a further 35 per cent have reviewed their scheme in the last year).**
- **42 per cent of employers say they are trying to reduce spending on pensions and 51 per cent are looking to reduce forward pension liabilities.**

- **55 per cent of final salary pension schemes are now either closed to new entrants (46 per cent) or future accruals (9 per cent).**
- **Employer contributions into final salary schemes have increased by 14 per cent in the last year.**
- **Contributions into occupational money purchase schemes generally are not increasing to offset the effect of deteriorating investment returns.**
- **Employer and employee contributions into final salary schemes average 17.6 per cent and are twice the average level of contributions paid into money purchase arrangements.**
- **Fewer than 1 per cent of employees based at firms covered by the survey have joined stakeholder schemes (46 per cent of stakeholder schemes have no members at all).**
- **Employers see increased incentives (tax or otherwise) as the most important policy priority to encourage employers to sponsor occupational arrangements.**
- **Employers see an overall 'lighter touch' approach to pension legislation and regulation as the most important government response to the Pickering proposals.**

The survey, conducted in August and September 2002, attracted responses from 336 firms, selected on a random basis, employing 1.8 million people. Employers responding to the survey ranged from those with under 10 employees through to those employing upwards of 50,000 staff.

Commenting on the survey results, ACA Chairman Gordon Pollock said:

“The survey results point to a ‘widening gap’ between those employees fortunate enough to be offered occupational arrangements and the increasing number that are not, coupled with a growing gap in contributions to fund pensions between those in final salary schemes and those in money purchase schemes. We have published today the ACA’s contribution to the debate on the future of UK occupational pension provision. We hope the government recognises the gravity of the current situation and that decisive early actions are needed.”

The ACA report says the sharp increases in employer contributions into final salary schemes are undoubtedly fuelling the swing away from final salary arrangements. The report notes that given the much lower investment returns being achieved, together with the improvements in mortality, it is worrying – in terms of pension benefits emerging – that contributions into the range of money purchase arrangements generally are not rising to reflect these changed circumstances. The emerging pensions offered by money purchase arrangements at the average levels of contributions reported in the survey (between 8 to 9 per cent of earnings) are likely to disappoint members, says the ACA.

The survey found that over two-thirds of employers feel that their employees fully appreciate the significance of major changes in scheme arrangements over the last few years. However, close to one-third of employers (31 per cent) who have changed their overall pension package are concerned that employees will come back to the company in years to come to say that they did not appreciate the impact of the changes made, possibly seeking financial redress.

The ACA has welcomed Andrew Smith's statement last week that seemed to recognise the need for a 'lighter touch' legislative regime for pensions, and that this would feature in the Green Paper. The ACA survey found this was the most popular measure in the Pickering recommendations, namely a demand for a major shift in government policy away from prescription and in favour of a broader brush approach to legislation and regulation.

The survey also found the protection of benefits of individuals nearing retirement was the second most popular measure in the employers' list of Pickering priorities. This reflects current concerns where some active members of schemes, especially those close to retirement, are experiencing sizeable reductions in anticipated benefits on retirement, due to deficits on wind up.

The survey report notes, however, that a majority of employers oppose some of the more contentious proposals put forward by Pickering, such as the option to remove the requirement in the future for Limited Price Indexation (LPI) increases of pensions in payment. Flexibility like this offers the opportunity for employers (on an optional basis) to reduce the cost of occupational provision in the future. The ACA says that, “given greater longevity and expectations of lower investment returns into the future, employers and employees need to face up to changes in scheme structures. Calls for government help – valid though these are – need to be accompanied by long-term thinking and decisions by employers that reflect their business and HR needs.”

Overall, if the government goes ahead with the Pickering proposals, the survey found 22 per cent of employers offering salary related schemes would be encouraged to retain their existing scheme.

The ACA survey asked employers to identify what pension reforms were the ‘top priorities’ to encourage employers to sponsor pension schemes. By some way, the **top three** priorities advocated by employers are as follows.

‘Top Three’ pension reforms to encourage employer sponsored schemes	
1	Increased incentives (tax or otherwise) to run schemes
2	Simpler tax rules / one regime
3	Simpler administration / less red tape

The ACA says it is clear that unless the government’s Green Paper offers significant financial incentives to employers to run occupational pension schemes, it will be judged a failure by employers. There must be a danger that measures falling short of this will be unlikely to check the decline in provision.

The ACA *Pensions Strategy* paper, published alongside the survey report, calls on the government to take urgent action in the Green Paper to bolster occupational provision. Its key recommendations are:

- A single flat-rate State pension, with a link to earnings paid for by....
- ... an increase in the State pension age and greater flexibility over retirement age.
- Abolition of contracting-out (unless genuine incentives are offered).
- Improved tax or financial incentives to encourage employers to sponsor occupational schemes.
- Support for defined benefit pension arrangements as defined contribution schemes are often inappropriate, particularly for the lower paid and those who do not have the financial sophistication to assess and manage the significant risks inherent in such schemes.
- Early action to reduce the inequity of treatment between pensioners and other scheme members on winding-up.

Copies of the preliminary *2002 ACA Pension Trends Survey* report and the *ACA Pensions Strategy* paper are available at www.aca.org.uk

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Note to Editors:

Members of the **Association of Consulting Actuaries (ACA)** are advisers to UK pension schemes with assets in excess of £650 billion, including the vast majority of larger schemes and thousands of smaller arrangements. The ACA forms the largest national grouping of consulting actuaries in Europe.