



NEWS RELEASE

Major survey finds 81% of defined benefit schemes are closed to new entrants...Over last five years, average employer contributions into defined benefit schemes have doubled to 23% of earnings and member contributions have increased to 6%, up on average by 40%...Total contributions into defined contribution schemes have levelled-off at around 10% of earnings...Strong support for new risk sharing schemes...

PENSION CONTRIBUTIONS: ACA SURVEY REPORT SAYS POLICY DRIFT IS ENDANGERING PENSIONS OF MILLIONS WITH 4 OUT OF FIVE DEFINED BENEFIT SCHEMES NOW CLOSED

11 July 2007: A major survey report on pension trends¹ in companies of all sizes, published today (11 July 2007), has found 4 out of 5 defined benefit pension schemes run by companies responding to the survey are now closed to new entrants (up from 7 out of 10 two years ago), with an increasing number (14% from 10% two years ago) closed to future accruals.

Whilst employers and employees are contributing at record levels into these defined benefit schemes to eliminate scheme deficits and to meet future benefit costs, the report notes that combined employer and employee contributions into defined contribution schemes – which have generally replaced defined benefit schemes for newer employees – have levelled-off at around a third of those into defined benefit schemes. The ACA says that these levels of contributions when allied to the likely long-term trend in annuity costs due to mortality improvements and volatility in investment markets are of great concern given the increasing number of employees now reliant for their non State pension on defined contribution/money purchase schemes.

The survey results underscore the need for decisive and radical pension scheme reforms from Government – a report on recommendations to government to deregulate private pensions is in delay and is due out later this month. The ACA says that the active promotion of legislative changes that would allow new risk sharing schemes to be opened is one important way the Government could help reinvigorate workplace pensions.

¹ The survey, conducted by the Association of Consulting Actuaries (ACA), was carried out in the first quarter of 2007. The survey was completed by 336 employers with scheme assets exceeding £127 billion and over 2.1 million members. For further details see *2007 Pension trends survey Report 2* attached or at www.aca.org.uk (Research).

The survey, conducted by the **Association of Consulting Actuaries (ACA)**, early in 2007, collected responses from over 330 employers with scheme assets exceeding £127 billion and over 2.1 million members. This second report on trends in occupational provision follows on from an earlier report addressing pension reform issues, published in June.

The survey found that 81% of defined benefit schemes run by respondents are now closed to new entrants, up from 68% two years ago. The number of schemes also closed to future accruals is 14%, up from 10% two years ago. **The survey found an increase in closures of occupational defined contribution schemes**, where trust based arrangements are being displaced by contract-based plans, such as group personal pensions.

The survey also found a pattern of **mounting pension costs for those employers running defined benefit arrangements and the members of such schemes. Over the last five years, the average employer contribution to such schemes has nearly doubled from 11.5% to 22.6% of earnings. Member contributions too have increased, on average by 40%, from 4.3% of earnings to 6.1%.**

The survey found increased contributions were not just addressing deficits. **Two-thirds of employers have increased contributions in order to also meet future service benefits.**

Over a six year period, the survey has found an improvement in overall contributions into occupational defined contribution/money purchase schemes. **With combined employer and employee contributions into these schemes now averaging around 10% of earnings – a third of that presently going into defined benefit pensions – there was some evidence two years ago that as larger firms switched to defined contribution, average contributions were rising. However, two years on, there is no great evidence that this upward trend has continued, says the ACA report.**

Whilst the survey found over eight out of ten defined benefit schemes were in deficit at their last funding valuation, it also found that **two-thirds of employers have made special additional contributions to close the funding gap and responded to the Pension Regulator's encouragement to generally reduce deficit recovery periods. Seven out of ten schemes expect to remove their deficit within 10 years** – many may do better if the upward trend in long-term real interest rates and investment markets persist.

The report underscored the finding that **some 72% of employers responding to the survey support the promotion of risk sharing schemes.** These schemes offer the opportunity to bring better cost control for employers, whilst also providing a more stable platform for retirement income than is offered by defined contribution schemes. However, current legislation restricts their widespread application – an issue being actively examined by the Government's ongoing Deregulatory Review of Private Pensions.

Commenting on the survey report, **ACA Chairman, Ian Farr** said:

"The big downside of the scheme closures that have taken place as private sector employers have de-risked for the future is that we are facing the very real prospect of growing 'under pensioning' in respect of millions, particularly the young and middle aged.

"The Government must act quickly to encourage pension provision that is better than a minimum level through personal accounts, where we feel there is some over-optimism in terms of the scale and the reliability of the pensions that this scheme will deliver. For that reason, we have called for legislative changes to encourage more risk sharing schemes. Failure by Government to act decisively and radically in terms of private pension reforms will breed growing resentment between private and public sector employees, where pensions are now often much better.

"We do not expect employers to reverse their closures of defined benefit final salary schemes – the desire to de-risk remains despite changed interest rate and investment market conditions. So, unless pension contributions into defined contribution climb or more employees are covered by risk sharing schemes, there is the very real danger that many more pensioners will need to rely on means-tested State benefits in the future than is currently predicted, with the consequent risk that future taxpayers may find the call placed on them unsustainable alongside the other public expenditure needs of the day. If this happens, the new 'pension settlement' proposed by Lord Turner might then be short-lived," added Ian Farr.

The second report of the ACA's **2007 Pension trends survey** is available at www.aca.org.uk on the '**Research**' and '**Latest publications**' pages (see '2007 Pension trends survey report 2'). 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 1500 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 Europe.