



## NEWS RELEASE

***Major survey finds 68% of employers expect levelling-down of pensions...76% say pension reforms will increase closures of better schemes...42% of smaller firms will restrict auto-enrolment into company schemes...72% of firms favour promotion of new risk sharing schemes...***

### **PENSION REFORM: ACA SURVEY SAYS PENSION APARTHEID AND LEVELLING-DOWN OF SCHEME CONTRIBUTIONS IS REAL THREAT**

**1 June 2007: A major survey of pension trends<sup>1</sup> in companies of all sizes, published today (1 June 2007), has found widespread disquiet about how the Government's reforms to introduce personal accounts could impact on existing pension provision. Many employers fear the reforms will lead to a general levelling-down of pension contributions, more closures of existing schemes and a growing divide between those in 'good' pensions and those offered lower-cost arrangements. This growing pension apartheid within the private sector builds on that already developing at pace between private and public sector employments.**

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 first report on the findings concentrates on pension reform issues.

**Whilst a majority of employers (59%) believe the State pension reforms being passed into legislation this year will provide a better platform upon which to build private pensions**, there are much greater doubts about the developing shape of personal accounts and policy towards occupational pensions.

**A clear majority of employers (68%) expect the introduction of personal accounts to lead to a levelling-down in employer pension contributions** as firms struggle – particularly smaller firms – with the costs of paying contributions more widely. However, presumably on grounds of opposition to further prescriptive regulation, three-quarters oppose placing a restriction on annual personal account contributions of less than £5,000pa.

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<sup>1</sup> 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 1* attached or at [www.aca.org.uk](http://www.aca.org.uk) (Research).

**Three-quarters (76%) say the proposed pension reforms will also lead to an increase in the number of closures of better workplace schemes** as employers rationalise their forward pension arrangements in response to the reforms.

The survey findings suggest entry into good occupational schemes looks set to be restricted in the future. **A pension apartheid may develop with close to a third of employers (31%) saying they are likely to restrict occupational scheme entry as a result of the proposed reforms**, which will require auto-enrolment into either a company scheme or personal accounts. **This restriction on entry into company schemes rises to 42% amongst smaller firms.**

**Amongst these smaller firms** (employing up to 250 employees), **over one-third (36%) say auto-enrolment will lead to them considering abandoning their present scheme in favour of personal accounts. A similar number (36%) are likely to reduce existing benefits to mitigate the cost increases of paying pension contributions more widely.**

**Opt out rates from personal accounts are projected by respondents at between 20-25% of employees, rising to between 30-40% in smaller firms.** These figures are much higher than where auto-enrolment presently operates and at the higher level are close to present opt in rates.

#### **On occupational pension reforms:**

- **72% support reducing the cap on revaluing benefits for early leavers** (from 5% pa to 2.5%pa)
- **80% support allowing employers to be able to increase retirement ages for future service benefits**, but only 29% support an increase for past service benefits
- **59% support employers being allowed more easily to recover at least some of the surplus** where a scheme's ongoing funding level exceeds the statutory target set by trustees
- **54% oppose the removal of mandatory indexation of pensions in payment**

**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 survey results underscore the dangers of the law of unintended consequences. All too often over the last 20 years, well-intended legislation has led onto damaging consequences for good existing pension provision. Whilst the idea behind personal accounts is laudable – extending pension coverage to more employees – it is clear from these findings that many may lose out unless great care is taken.

“Regulatory easements and real positive support for ‘good’ existing and new workplace arrangements is a vital element of reform – this must be effective ahead of 2012 when personal accounts are set to be introduced. A radical agenda of reform from the Deregulatory Review currently underway is vital – we await its results with great interest.”

The first report of the ACA’s **2007 Pension trends survey** is available at [www.aca.org.uk](http://www.aca.org.uk) on the ‘**Research**’ and ‘**Latest publications**’ pages (see ‘2007 Pension trends survey report 1’). 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.