2017 ACA PENSION TRENDS SURVEY

Final Report

ASSOCIATION OF CONSULTING ACTUARIES

PRESS RELEASE: EMBARGO ON PUBLICATION UNTIL 30 NOVEMBER 2017

Survey results reveal a strong consensus view from UK businesses on which pensions policies need to change, but also worrying trends in pension provision…

SURVEY REPORT SAYS ACTION NEEDED AS UPWARDS OF 12 MILLION WORKERS ARE EXCLUDED FROM PENSIONS AUTO-ENROLMENT, BUT EMPLOYERS RELUCTANT TO SUPPORT INCREASES IN MINIMUM CONTRIBUTIONS ABOVE 8% POST-2019

29 November 2017: The latest results published by the Association of Consulting Actuaries (ACA) in the final report of this year's *ACA 2017 Pension Trends Survey* confirm that over 40% of employees in smaller firms are being ruled not eligible for auto-enrolment into a workplace pension. The ACA says that when coupled with the self-employed – also presently not eligible – there still could be over 12 million of the UK workforce largely relying on the State pension and other State benefits post-2018, by which time most employers will have complied with the auto-enrolment policy. The survey also found employee opt-out rates are rising towards 1 in 4 at smaller firms, with many employers expecting rates to rise as minimum contributions increase in April 2018 and 2019. Post-2019, fewer than half the employers support increases in minimum AE contributions above 8% of qualifying earnings, a level which the ACA and many other bodies say is insufficient to generate an adequate income in later life.

The ACA survey, which was conducted over the summer and received responses from 466 employers of all sizes with over 760 pension arrangements, found **consensus on a number of important policy areas** (see below), whilst also highlighting **worrying trends in pension provision** (over page).

Employer consensus on some key policy areas

- **57%** **think the self-employed should be brought into pension auto-enrolment.**
- **87%** **are against a radical reform of pensions tax, although** **77%** **support more help targeted on those on lower incomes.**
- **84%** **support easements in pension indexation where employers running defined benefit (DB) schemes are in serious financial difficulties.**
- **80%** **say legacy defined benefit scheme costs are creating inter-generationally unfair consequences.**
- **79%** **support tougher penalties for mismanagement of schemes.**
- **79%** **support a lower State pension being flexibly accessible from age 66 as State pension age rises.**
- **90%** **think security and data cleansing needs sorting out before the pensions dashboard goes ahead.**
- **72%** **support capping of individuals' contributions to social care costs and** **59%** **support a compulsory social care insurance scheme.**

Worrying trends in pension provision

- **Median pension contributions from employers and employees combined into many auto-enrolment (AE) schemes amount to just 2-3% of earnings**.
- **46% oppose reducing the lower trigger point for AE enrolment (currently £10,000pa earnings), meaning millions on lower earnings are not eligible for auto-enrolment into a scheme, whilst 44% support a lowering of the trigger point**.
- **44% oppose increases in minimum AE contributions post-April 2019, when contributions will be a minimum of 8% of qualifying earnings, whilst 41% support a gradual increase**.
- **From April 2019, following the increase in minimum contributions, AE median opt-out rates are forecast to rise to 16-20% of eligible employees from 11-15% at present**.

ACA Chairman, Bob Scott, commented:

"In assessing the survey results, we believe the Government needs to develop a coherent 'next steps' strategy that is ready to address the anticipated potential danger of rising opt-outs as employers – particularly small and micro-employers – and their employees react to the increase in minimum contributions in 2018 and 2019. For the majority of these employers, the increases in both employer and employee contributions come very soon after their staging date for auto-enrolment and land in the middle of sizeable projected increases in the 'living wage' and pre-Brexit economic uncertainties. The report includes some recommendations that we think might help in this important public policy area. We also comment on what we and employers feel is needed to ensure the greater longevity and sustainability of defined benefit provision, which still underpins the retirement incomes of many millions of pensioners and will do so for some years ahead.

"Our survey points to the need – part of what we see as the 'next steps' strategy – that looks to a gradual, but essential increase of the default level of contributions into defined contribution schemes. This is needed to ensure that many more people save sufficient amounts for an adequate retirement income. A gradual increase in minimum contributions to eventually around 16% of earnings should be a target. Without commitment from government to ensure that sums saved into AE are meaningful, we see little prospect that as a society we will be able to address the fears of a growing gulf in retirement incomes from one generation to the next.

"To give subsequent generations a decent chance of enjoying secure, adequate retirement incomes as life-spans generally extend, we call on the Government to review its spending plans, tax rates and incentives to help support this objective at a time when increases in wages and salaries are likely to remain muted for many."

The survey's final report is available at www.aca.org.uk **(research & surveys page)**.

Bob Scott	020 7432 6605
Gareth Boyd	01737 241144
David Robertson	020 3102 6761 (M: 07919 911380)

Note to Editors

Auto-enrolment: a brief summary

The policy requires employers to automatically enrol 'eligible' workers into a qualifying workplace pension scheme. The enrolment duties have been staged in between October 2012 and into 2018 by size of employer, starting with the largest and finishing with new businesses established during staging.

Employees are eligible for auto-enrolment provided they are aged at least 22 and under State Pension age, and earn over £10,000pa in 2017/18 terms. Initially, until April 2018, contributions have been set at a minimum of 1% employer contribution as part of a total minimum contribution of 2% on qualifying earnings (earnings between £5,876 and £45,000pa) in 2017/18 terms. By April 2019, once fully phased in, the total minimum contribution will be 8% of qualifying earnings, of which at least 3% must come from the employer and 1% will come from the Government in the form of tax relief. There are provisions for schemes that structure their contributions in different ways to be certificated as qualifying schemes.

Those presently earning less than £10,000pa can ask to take part in auto-enrolment and, if they earn more than £5,876pa, their employer will be obliged to make the minimum contribution too. Those aged under 22 or over State Pension age and still working can also opt-in in the same way. All employees have the right to opt-out.

The Government has said it will conduct a review of auto-enrolment towards the end of 2017.

About the Association of Consulting Actuaries (ACA)

Members of the ACA provide advice to thousands of pension schemes, including most of the country's largest schemes. Members of the Association are all qualified actuaries and all actuarial advice given is subject to the Actuaries' Code. Advice given to clients is independent and impartial. ACA members include the scheme actuaries to schemes covering the majority of members of private sector defined benefit pension schemes. The ACA is the representative body for UK consulting actuaries, whilst the Institute and Faculty of Actuaries is the professional body.

Association of Consulting Actuaries Limited · Second Floor (203) · 40 Gracechurch Street · London · EC3V 0BT
Tel: +44 (0)20 3102 6761 · Email: acahelp@aca.org.uk · Web: www.aca.org.uk