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With the Pensions Green Paper consultations drawing to a close, the ACA 2003 Pension trends survey reports against a back-cloth of a rapid rise in final salary scheme closures with 72 per cent now closed to new entrants or future accruals ...

MAJORITY OF EMPLOYERS WELCOME TAX SIMPLIFICATION REFORM PRINCIPLES, BUT 93 PER CENT SAY PENSION GREEN PAPER PROPOSALS WILL NOT BOOST PROVISION

21 March 2003 – Whilst the majority of employers welcome the principles behind the pension tax simplification proposals published in December 2002, the vast majority – 93 per cent – say the Government’s pensions green paper proposals, announced at the same time, are inadequate and will not encourage greater occupational pension provision. With the Government keen to keep State pension reform off the agenda, 95 per cent of employers say State pension reform needs to be included in the final reform proposals to be tabled later this year.

These are two of the key results of a pension trends survey of employers ***Pensions Reform: too little, too late?*** conducted by the **Association of Consulting Actuaries (ACA)** following the publication of the tax and pension green papers. The need for speedy Government action is clear, with **29 per cent of employers saying they have reviewed their pension arrangements in the last 6 months alone**. During this time, a further 17 per cent of employers have decided to close their final salary schemes to new entrants – **72 per cent of final salary schemes are now closed to new entrants or future accruals**. If this

pace of change continues, the ACA says there could be fewer than 15 per cent of final salary schemes open to new entrants within 2 years.

Whilst few feel the Government's overall tax or pension simplification proposals will encourage greater provision, 68 per cent say the taxation proposals contained in the Government paper *Simplifying the taxation of pensions: increasing choice and flexibility for all* will ease administration. **69 per cent say they support the principle of the lifetime and annual contribution limits for tax relief purposes, but employers favour a higher lifetime limit of over £2 million (rather than the £1.4 million proposed) and an annual contribution of at least £250,000 (rather than the £200,000 proposed).** However, a majority of employers – 55 per cent – say the lifetime limit will cause problems with senior staff and executive provision, leading onto scheme re-design.

The vast majority of employers – 87 per cent – are looking to the proposed limits for tax relief being indexed to earnings. 69 per cent also favour 6 April 2005 as 'A' Day – the date when the new tax rules will be introduced – but set against this, 43 per cent say 6 April 2004 is achievable.

Responding to proposals in the Pensions Green Paper, the ACA survey found:

- **56 per cent say occupational scheme coverage will increase if employers are permitted the option to make their scheme compulsory**
- **Only around 25 per cent of employers feel the removal of requirements to offer Limited Price Indexation (LPI) and spouses' benefits will extend provision**
- **Only 26 per cent of employers feel the proposals in the green paper to simplify contracted out benefits and to reduce complexity are sufficient easements (67 per cent favour abolishing contracting out if rebates are not improved)**
- **69 per cent of employers support the replacement of the Minimum Funding Requirement with a Scheme Specific Funding Requirement**

- **76 per cent support a more pro-active Pension Regulator to replace OPRA**
- **Employers are split down the middle on support for statutory backed employee consultations prior to scheme changes and the Section 67 proposals to allow schemes to modify (with limits) accrued rights without member consent**
- **84 per cent of employers support a fairer distribution of assets on scheme wind up**
- **53 per cent support a compensation fund to be funded by all pension schemes in the event of an insolvent employer’s scheme being unable to meet accrued benefits**

Employers say increased tax incentives for individuals; incentives to employers offering occupational pensions and more compulsion are the three most important policy priorities to boost private occupational provision.

The ACA survey report says that combined employer and employee contribution rates into final salary schemes are on the increase (up from 15.8 per cent last year to 17.6 per cent of earnings this year). Mostly, this reflects increased employer contributions, but the survey found 6 per cent more schemes, over the last 6 months, have successfully called for higher employee contributions. However, there are few signs that contributions into money purchase schemes – which are generally half those into final salary schemes – are increasing, despite lower investment and annuity returns. There are also signs over the last 6 months, says the ACA, that more employers are considering lower cost defined benefit schemes, such as career average schemes, which can better protect those on lower incomes than money purchase.

Average combined employer and employee contributions into			
	Last year	Current year	Long-term expected
Final salary schemes	15.8%	17.6%	19.6%
Occupational money purchase	8.5%	8.7%	8.9%

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

“Our latest report on occupational pensions makes disturbing reading. The incidence of occupational pension provision is on the decline – figures show far fewer employees are being offered occupational pensions than a decade ago and our survey found only around 1 per cent of employees have taken up Stakeholder plans. The flight away from final salary arrangements has accelerated disturbingly over the last few months.

“What is clear is that employers (and members) need as much help as they can get from the Government to support occupational provision. The immense value of a sizeable employer’s contribution in building a good pension cannot be underestimated. This is why the Government’s reform proposals are so important and why they must be improved upon.

“The Government can do more. According to their own figures, the removal of compulsory Limited Price Indexation and spouses’ benefits alone – both forced by Government on schemes after many had been established – could reduce funding costs by up to 40 per cent. That is not to say all or even a majority of schemes want to make these savings. In fact, our survey says most wouldn’t. But for those who need to make savings, or those newer firms considering offering pensions for the first time, radical measures that give the option to reduce forward liabilities or to run lower cost schemes are hugely important.

“Better incentives too – tax or otherwise – to employers who offer an occupational scheme with a significant employer’s contribution need to be very seriously considered before the Government’s revised proposals, following the consultation period, are published,” concluded Pollock.

Copies of the ACA report *Pensions Reform: too little, too late?* are available from the ACA, No 1 Wardrobe Place, London EC4V 5AG or at www.aca.org.uk

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Note for Editors:

ACA pension trend surveys

In the summer of 2002, ahead of the government's Green Paper on pensions, the ACA undertook a survey on occupational pension trends across employers of all sizes. The survey attracted responses from 336 firms, selected on a random basis, employing 1.8 million people. As part of the survey, employers were invited to comment on the Pickering pension simplification proposals submitted to government in 2002. Then, in February 2003, following the publication of the Green Paper and Tax Simplification Paper, the ACA conducted a follow up survey of 208 firms to gauge reactions to the two papers.

Appendix: Summary of other key results in table form

Changes in pension arrangements	Over 5 years to Aug 2002	In last 6 months	Total
Closed final salary scheme to new entrants	46%	17%	63%
Closed final salary scheme to future accruals	9%	-	9%
Moved more employees onto money purchase schemes	14%	8%	22%
Set up a mixed money purchase / final salary scheme	9%	2%	11%
Set up a career average scheme	1%	3%	4%
Reduced percentage of employees covered by pensions	5%	2%	7%
Placed one or more schemes into wind up	8%	3%	11%
Moved to more flexible benefits	9%	5%	14%
Increased member contributions	-	6%	6%

(Source: Association of Consulting Actuaries, 2003)

What is needed to encourage more private occupational pension provision	
1.	Greater tax incentives for individuals
2.	Encouragement / incentives to employers offering company pensions
3.	More compulsion
4.	Less government interference / more simplification
5.	Earlier education
6.	Compulsory membership

(Source: Association of Consulting Actuaries, 2003)