



NEWS RELEASE

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With the Pensions Bill set for its Second Reading on 7 January, the ACA's Review and Report on their 2007 Pension trends survey highlights the urgent need for additional reform measures to be included in the Bill if private sector employees are not to lose out...

ACA SURVEY REPORTS ONLY 1 IN 5 PRIVATE SECTOR DEFINED BENEFIT PENSION SCHEMES ARE OPEN TO NEW EMPLOYEES... WHILST PUBLIC SECTOR EMPLOYEES IN OPEN DEFINED BENEFIT SCHEMES NOW OUT-NUMBER PRIVATE SECTOR EMPLOYEES BY 5 TO 1

2 January 2008: The final report of a survey on pension trends¹ in companies of all sizes, published today (2 January 2008), has confirmed 4 out of 5 defined benefit pension schemes run by companies responding to the survey are closed to new entrants (up from 7 out of 10 three years ago). Latest figures collected by the Association of Consulting Actuaries (ACA) reveal only around 900,000 private sector employees are now in defined benefit schemes open to new employees, compared to over 5 million public sector employees.

Private sector employers and employees have contributed at record levels into defined benefit schemes to eliminate scheme deficits and to meet future benefit costs. However, 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 is of mounting concern.

The survey results underscore the need for radical pension scheme reforms from Government, but the **ACA Review and Report** says the current *Pensions Bill*,

¹ The survey, conducted by the Association of Consulting Actuaries (ACA), was carried out during 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 Review and Pension trends survey Report* attached or at www.aca.org.uk (Publications).

due for its Second Reading on 7 January is – to date – falling short. Whilst the ACA welcomes attempts to extend pension provision to a wider group of employees through personal accounts (the main feature of the Bill), there is an urgent need to encourage employers to still offer workplace schemes that are better than personal accounts. With many employers considering closure of their existing defined benefit schemes to new entrants and increasingly existing employees, a new design option is needed. The ACA says that amendments to the *Pensions Bill* removing the ban on employers from being able to offer **conditionally indexed pension schemes²** are what is needed.

Removing the ban would provide employers with a type of scheme that offers greater certainty over long-term costs, whilst offering employees a more stable platform for their retirement income than is possible through money purchase schemes.

The *2007 Pension trends survey*, conducted by the **Association of Consulting Actuaries** collected responses from over 330 employers with scheme assets exceeding £127 billion and over 2.1 million members. Key findings featured in the report are as follows:

- **68% of employers said that the Government's pension reforms would lead to a general levelling-down of pension contributions per employee**
- **76% said there would be an increase in the number of scheme closures of existing better (than personal accounts) schemes**
- **Amongst smaller employers with fewer than 250 employees, 36% said they might abandon their existing pension scheme in favour of personal accounts, with a similar number saying they might revise benefits to meet the extra costs of personal accounts**
- **Average combined employer and employee contributions into defined benefit schemes are now 29% of earnings, not far short of double the level 5 years ago. Defined contribution/money purchase contributions are on average a third of this level**
- **The survey found increased defined benefit contributions were not just addressing deficits. Some 65% of companies with such schemes have increased employer contributions to meet future service benefits due to changes in longevity, reduced investment return expectations and increased costs from extra legislative obligations**
- **Only a minority of schemes reporting to the survey (16%) have moved to a Liability Driven investment (LDI) strategy**
- **76% of larger employers (250 employees or more) favour the Government promoting risk sharing schemes that provide a more stable benefit platform than defined contribution**

² See *Notes for Editors* at end of release for a brief explanation of this type of pension scheme.

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.

About conditionally indexed pension schemes

Under **conditionally indexed pension schemes** the level of pension would generally be geared to average career earnings.

Such schemes would be regulated by the Pensions Regulator, would be required to support past and future benefits including indexation by prudent reserves under the new scheme funding rules and would offer protection to members in terms of access to the Pension Protection Fund should the sponsoring employer fail.

Importantly, deferred pensions and pensions in payment would be indexed, but with annual increases conditional on the health of a scheme's finances. At present, indexation of defined benefits is mandatory irrespective of the financial health of a scheme.

Conditionally indexed schemes offer the prospect of higher investment returns over the long term, and therefore lower costs, due to fewer constraints on investment strategy.