EMBARGO ON PUBLICATION UNTIL 4 JANUARY 2011

With the impact of the austerity programme beginning to emerge in falling disposable incomes and reduced levels of savings, the Government's pension reform programme faces immense challenges in the smaller firms sector…

MAJOR SURVEY OF SMALLER FIRMS FINDS PENSION CONTRIBUTIONS ARE FAILING TO KEEP PACE WITH THE INCREASING COST OF PENSIONS

4 January 2011 – Most defined contribution pension schemes run by smaller firms are attracting combined employer and employee contributions of less than 8% of earnings, with little evidence that these are keeping pace with the increasing cost of building a sufficient pension as life-spans extend. Where defined benefit schemes are provided, these are on average receiving combined employer and employee contributions of 24% of earnings, but just short of nine out of ten of these schemes are now closed to new entrants and 41% are closed to future accrual by existing members. These are a few of the findings of the final report of the *Smaller Firms' Pensions Survey* conducted by the Association of Consulting Actuaries (ACA).

The ACA survey gathered responses from 404 smaller employers with 250 or fewer employees. There are over 1.2 million of these smaller firms which employ over half of the UK's private sector employees (60%) and generate a half of all private sector turnover (49%), amounting to £1,589 billion per year[1]. They make up 99% of all private sector enterprises. At present, two-thirds of the UK's smaller firms offer no pension scheme, but all will be required to auto-enrol their employees into a 'qualifying workplace pension scheme'[2] under the Government's pension reforms between 2014 and early 2016. By October 2017, contributions must be 8% of employee earnings, with a minimum of 3% from the employer plus 4% from the employee and 1% by way of tax relief, albeit employees have an opt-out which also removes the employer's need to contribute. The survey found that smaller firms expect 35% of employees to opt out.

Firms said that employees did not join their schemes mainly because of cost (84%) with two-thirds also not joining because firms felt employees were 'disillusioned with pensions'.

Almost all (96%) of the smaller firms responding to this ACA survey without a scheme said 'cost' was the main reason they did not provide a pensions at present.

Only 21% of the smaller employers responding to the survey have begun to consider the financial impact of the new auto-enrolment and NEST rules from 2014[3].

Other key findings include:

Pension reviews and costs

- **A quarter of firms (24%) are reviewing their pension schemes in the year ahead.**
- **21% of firms are looking to decrease their pension spend balanced by 14% aiming to increase spend.**
- **The average ongoing funding level of defined benefit schemes reporting to the survey was 82% expressed as a percentage of liabilities. Of the 46% of schemes in deficit, a third of schemes said their recovery plan was in excess of 10 years.**
- **Only 8% of defined benefit schemes moved to a higher proportion of bonds in the last year – a big trend change on two years ago (when three-quarters reported such a change).**
- **16% of firms assist defined contribution retirees by helping them with their open market option prior to purchasing an annuity by providing them with a range of quotations.**

Auto-enrolment and NEST

- **When required, 62% of smaller firms say they will auto-enrol current 'non joiners' into existing schemes.**
- **However, 20% say they will close their existing scheme and auto-enrol all employees into NEST. Around a quarter (24%) of smaller firms say they will auto-enrol employees into a new firm's scheme, and a fifth will restrict entry into an existing scheme placing the balance in NEST, or will use NEST as a foundation scheme.**

Other pension reforms

- **73% of firms say the move to age 67 State Pension Age should be completed by 2026.**
- **65% of firms running a defined benefit scheme say the Government should enact overriding legislation to enable schemes to index pensions in line with CPI, if they so wish in the future.**
- **67% say they want a statutory override that would enable them to adjust scheme pension age automatically as life-spans extend.**

Commenting on the survey results, **ACA Chairman, Stuart Southall** said:

"Our survey has found savings by both employers and employees into defined contribution schemes generally have failed to keep pace with the cost of building a sufficient pension. Pension contributions into most schemes reporting to this survey need to double on average to at least 15% of earnings if reasonable retirement incomes are to be achieved. Whilst understandable, it is concerning that the minimum levels of contributions under the auto-enrolment policy are very modest. If these levels become the norm, emerging pensions are likely to disappoint, feeding further disillusionment with pensions.

"Whilst the county's dire economic position does not presently allow, it seems clear to me that if we are to encourage a much wider proportion of our people to save adequately for their retirements, we will need to make greater room for savings from individuals' disposable incomes. Employers too will need new rewards for boosting their pension contributions and greater freedom in pension design.

"Greater transparency and low-cost products will play a part in this, as will better consumer financial education and auto-enrolment – all of which is 'work in progress' with some areas more advanced than others, but more will be needed. A plan to provide new incentives to save, building up over a number of years as the economy recovers, is badly needed.

"The smaller firms covered by this survey – so important to the UK economy in terms of employment and innovation but – where pension provision is endemically weak – seem particularly needful of financial incentives to kick start sufficient levels of pension saving."

The ACA *Smaller Firms' Pensions Survey* report is available at www.aca.org.uk (see: recent publications) or
http://www.aca.org.uk/files/ACA_Smaller_Firms_Pension_Survey_report-4_January_2011-20101223115208.pdf

For further details:	Stuart Southall – general comment	020 7533 1883
	Steve Leake – general comment	01483 540 300
	David Robertson – survey results	020 3207 9380 (M: 07919 911380)

About the Association of Consulting Actuaries (ACA)

The **Association of Consulting Actuaries (ACA)** is the representative body for consulting actuaries, whilst the Institute and Faculty of Actuaries is the professional body. The ACA has 1,750 members working in around 75 firms. ACA Members are all qualified actuaries and all actuarial advice given by members is subject to the Actuaries' Code. The ACA forms the largest national grouping of consulting actuaries in the world.

---

[1] Source: Dept for Business Innovation & Skills, *Small and Medium-sized Enterprise Statistics 2009*, published 13 October 2010.

[2] A pension scheme that meets, or exceeds, certain legal standards, including a minimum employer contribution.

[3] Larger firms with 250 or more employees will begin auto-enrolment on a staged basis from October 2012.