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The ACA 2010 Smaller Firms' Pensions Survey finds mixed views on the Government's auto-enrolment reforms with 53% saying they will add 'significantly to costs' with a slim majority (54%) supporting the policy...

SURVEY OF SMALLER FIRMS FINDS 'OPT-OUT' RATE OF 35% FROM NEW PENSIONS IS EXPECTED. TWO-THIRDS SAY 'MICRO EMPLOYERS' SHOULD BE EXEMPTED FROM POLICY...

27 September 2010 – Only one in five of the country's smaller employers have begun to consider the financial impact of new statutory rules from 2014¹ requiring them to auto-enrol millions of extra employees into workplace pension schemes – employees who at present have not joined schemes. Over half (53%) say the reforms will 'add significantly to costs' and 29% say they are 'likely' to level-down (reducing future pension contributions into existing and new schemes) to meet the additional cost of newly pensioned employees; although the scope for levelling-down is limited across the UK's smaller firms as a whole as at least two-thirds do not offer any pension arrangements at present. Overall, 54% of smaller firms say they support auto-enrolment, but they expect 35% of employees to 'opt-out' of the new pensions. These are a few of the key findings of the first report of the *2010 Smaller Firms' Pensions Survey: Auto-enrolment and NEST* conducted this summer by the Association of Consulting Actuaries (ACA) as part of its input to the current review of auto-enrolment commissioned by the Coalition Government. The report follows up an earlier ACA survey on the impact in larger firms of the reforms².

The ACA survey gathered responses from 404 smaller employers with 250 or fewer employees. Across the UK, there are over 1.2 million of these smaller firms with 1 employee or more – **all** will be required to auto-enrol their employees into a 'qualifying workplace pension scheme'³ under the Government's current pension reforms between 2014 and early 2016.

Other key findings include:

- **60% 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 fifth of smaller firms say they will auto-enrol employees into a new firm's scheme, or will restrict entry into an existing scheme placing the balance in NEST, or will use NEST as a foundation scheme.**

- **66% say that employers with one employee (and a half say those with fewer than five employees) should be exempt from operating auto-enrolment.**
- **61% say employees with less than 3 months' service should not be auto-enrolled .**
- **Smaller firms say the principal reasons why employees do not join existing schemes is 'cost' (84%), a 'preference to spend' (72%) and 'disillusionment with pensions' (69%).**
- **Firms not presently providing pensions say they do not principally because of 'cost' (96%), 'economic conditions in their sector' (82%) and 'insufficient competitive pressures' (53%).**

On NEST (National Employment Savings Trust) (see *Note for Editors*), the smaller firms responding to the survey have mixed feelings. 43% agree with its establishment. The remainder are split between those who would prefer existing commercial organisations (11%) to fulfil the NEST role (although there seems no great enthusiasm from providers to undertake this role) and those disagreeing with the entire concept (46%), largely made up of the respondents who are opposed to auto-enrolment.

A small majority (53%) of smaller firms favour no further delay in introducing auto-enrolment, which for them begins in early 2014.

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

“The success of the auto-enrolment policy in smaller firms is likely to hinge on how well the economy recovers over the next few years. The opt-out rates expected are much higher than we found amongst larger organisations – 35% as against 15%. The ‘cost of pensions’ to both employees and employers is the ‘big issue’ that has prevented the extension of pension provision to date in the sector. Whilst auto-enrolment may break the mould, if we are all still paying higher taxes to recover over-spending, it’s difficult to see how this will not bump up opt-out rates. Much remains to be done in educating the wider public about the importance of private pension saving to boost retirement incomes and the need to make room for higher levels of savings in spending plans.

“Certainly, our surveys of both larger and smaller firms have found a clear consensus in favour of excluding firms with just one employee from the auto-enrolment regime, with a majority looking to remove firms with fewer than 5 employees. There is also a consensus to exclude employees with under 3 months' service and for pension contributions not to be based on the earnings basis laid out in current rules. If adopted by Government, these changes would all greatly simplify the launch of auto-enrolment.”

If the auto-enrolment policy was reviewed to exclude firms with just one employee, then this would reduce the number of firms that the auto-enrolment regime would need to manage by some 200,000. More significantly, excluding firms with fewer than 5 employees would reduce the number of firms subject to auto-enrolment by a further 600,000. Such a decision would greatly ease the administrative challenge faced by the new auto-enrolment regime, whilst only reducing the numbers eligible for auto-enrolment by around 2 million (leaving 8-9 million still eligible for auto-enrolment)⁴. Excluding these micro-employers need not be a permanent decision. Once the regime has been established and been seen to work efficiently, smaller firms could be gradually eased into coverage.

The ACA survey also found that combined employer and employee pension contributions into defined contribution schemes in smaller firms range, on average, between 7½% and 9¼% of earnings, depending on the type of scheme and size of firm (see below). Where final salary schemes are still present, 86% are closed to new entrants and 41% are also now closed to future accrual by existing employees.

Average combined employer and employee contributions	1-50 employees	51-150 employees	151-250 employees	All
Trust based contribution	7.9%	9.7%	11.2%	9.3%
Group Personal Pension	6.9%	8.5%	9.6%	7.6%
Stakeholder scheme	7.7%*	8.6%*	9.5%*	8.0%*

Note: Stakeholder figures exclude 27% of schemes with 'nil' employer contributions

The ACA's evidence to the auto-enrolment review and copies of the larger and smaller firms' *Auto-enrolment and NEST* survey reports are available at www.aca.org.uk (see: recent publications).

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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 1750 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.

Notes

¹ Larger firms with 250 or more employees will begin auto-enrolment on a staged basis from October 2012

² See www.aca.org.uk 'Survey on Auto-enrolment and NEST' in larger organisations, 31 August 2010 ('publications' page)

³ A pension scheme that meets or exceeds certain legal standards, including a minimum employer contribution.

⁴ See *Hansard*, Column 1152W, 27th July 2010: Steve Webb MP replying to a written Parliamentary Question by Angela Eagle MP.

Note for Editors

The **Pensions Commission Reports** in 2005 and 2006 pointed to significant under-saving for retirement, notably amongst low-to-moderate earners, with millions heavily reliant on inadequate State pensions. The then Government responded by flagging its intention to restore the indexation of State Pension to earnings growth alongside a number of other improvements, whilst increasing the State Pension Age gradually to 68 by 2046. Additionally, to boost additional private pension coverage and to take in up to 10 million new pension savers, the Government accepted the need for both a low-cost national scheme, now called the **National Employment Savings Trust (NEST)**, for employees not offered access to an employer's scheme meeting certain minimum requirements, with auto-enrolment into either NEST or an employer's scheme. The **Coalition Government recently announced a review of the auto-enrolment policy**, requesting that the reviewers report to the Pensions Minister by 30 September 2010.