ASSOCIATION OF ACA CONSULTING ACTUARIES

2008 Smaller Firms Pension Survey

Quality pensions under renewed threat in run up to personal accounts with dire economic conditions adding to gloomy outlook

Amongst the 1.2 million firms employing 250 or fewer staff, less than 1 in 5 offer a workplace pension scheme.

pension trends in smaller firms survey: scheme closures continuing with levelling-down already underway

The Association of Consulting Actuaries (ACA) *Pension Trends in Smaller Firms Survey 2008* was conducted earlier this year. Over 390 firms, all with 250 or fewer employees, responded to a wide range of topical pension and investment questions, including a special section on the Government's latest pension reforms.

The first report, published in September, focused on firms' views on auto-enrolment and personal accounts, which the Government hopes will attract between 6 to 9 million more employees to contribute towards a workplace pension from 2012. That report detailed the 'under-pensioned' position of most employees in smaller firms. **Around 80 per cent[1] of the UK's 1.2 million firms, employing over 9 million employees, presently run no workplace pension arrangement at all.**

The survey also found that for very many of these smaller firms running an existing scheme, the introduction of auto-enrolment and the launch of personal accounts are likely to lead onto adjustments and reductions to benefits and to scheme closures – a trend that is already underway.

This second and final report explores in greater detail the pension scheme design changes in the smaller firms sector, scheme funding and investment issues.

The move away from more costly and more heavily regulated pension arrangements is particularly clear in this year's findings. Open defined benefit schemes (in the main final salary based) are, for example, a very rare beast compared to previous ACA surveys of the sector stretching back to 1996. Over 90% of defined benefit schemes run by these smaller firms are now closed to new members and nearly half are closed to future accruals. Average ongoing funding levels at the time of the survey were 75%, with three-quarters looking to a deficit recovery period of under 10 years. Unfortunately, worsening economic conditions since the survey was conducted are likely to mean these figures will deteriorate over the period ahead.

This report includes a summary of the first report's findings and, as an appendix, the complete statistical breakdown of firms' responses to the questionnaire, which was issued in June 2008.

the key findings

pension trends in sector: low contributions mean the majority of schemes may fail personal accounts exemption test

low contributions are a feature of many defined contribution schemes in the sector. As a result, 55% of firms say their existing pension schemes would fail the personal accounts exemption test. Since 1996, when this series of surveys began, there has been little, if any, increase in average contributions into defined contribution schemes despite generally lower investment returns and advances in longevity.

slipping away: open defined benefit coverage nears extinction

in the sector, over 90% of defined benefit schemes are now closed to new members and close to half to future accruals. Scheme funding and deficit recovery periods have improved, but the economic shocks late in 2008 are likely to reverse these advances.

affordability and the government reforms: levelling-down and high opt outs likely

31% of firms expect to reduce their pension scheme benefits to mitigate the cost of higher membership or will close their schemes in favour of personal accounts. Affordability will drive individuals' opt out decisions, with firms expecting over 40% of employees to opt out of personal accounts.

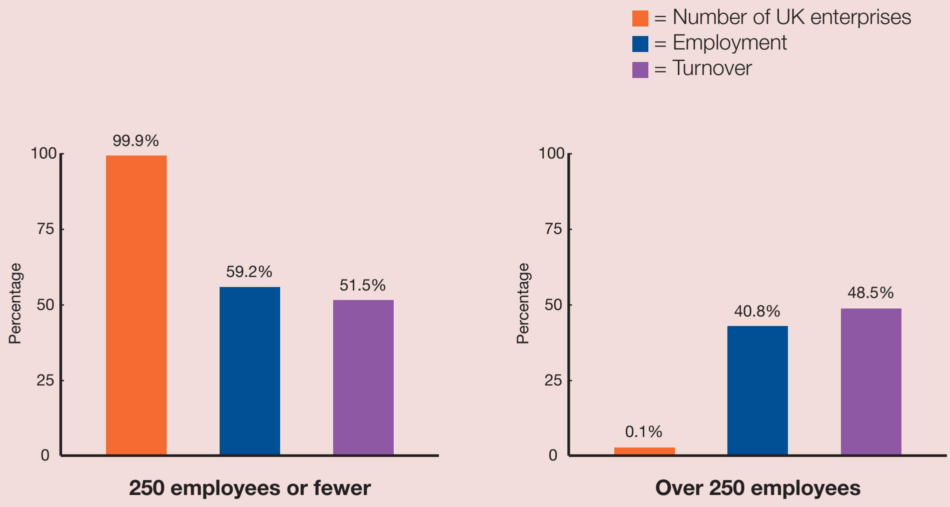
[1] *Security in Retirement: towards a new pensions system* published by DWP, May 2006, page 74

facts and figures: smaller firms dominate UK economy

The smaller firms sector - firms employing 250 or fewer employees - is the largest part of the UK private sector economy. It employs over 59% of the working population and generates over half of the UK's business turnover of £2,800 billion (BERR figures: July 2008).

These smaller firms make up over 99% of UK enterprises - there are only 5,900 businesses including public corporations and nationalised bodies - that now employ over 250 people. The importance of pension trends in the smaller firms sector is therefore clear in terms of the coverage of employees – over 9 million – and the potential of some of these firms to be the larger firms of the future. It is also the key market where the success of the new personal accounts scheme and auto-enrolment will be most tested, including as it does over 1.2 million firms, the vast majority of which at present operate no workplace pension scheme.

Figure 1: Share of enterprises, employment and turnover by size of business



(**Source:** Small and Medium-sized Enterprises Statistics, published by Department for Business Enterprise & Regulatory Reform, 30 July 2008)

The major test for the Personal Accounts Delivery Authority (PADA) and its appointees over the next 3 to 4 years will be to establish a sound personal accounts administration system to capture data on over 1.2 million firms (the vast majority with fewer than 4 employees) that is also able to cope with the dynamic changes in business numbers (over 15,000 per year), the movements of employees from firm to firm and changes in opt out decisions, and – of course – pension investments! This is an extremely challenging task with an even more exacting timetable.

Figure 2: Over a million employers: the personal accounts challenge

UK Private sector firms	Number of Enterprises	Employment (thousands)	Average number of Employees per firm
Small firms			
1 – 9 employees	1,019,295	3,764	4
10 – 49 employees	166,815	3,265	20
50 – 249 employees	26,690	2,653	99
Total: smaller firms (under 250)	**1,212,800**	**9,682**	**8**
250 or more employees	5,915	9,279	1,569
Total: all firms with employees	**1,218,715**	**18,961**	**16**

(**Source:** Department for Business, Enterprise and Regulatory Reform, 30 July 2008)

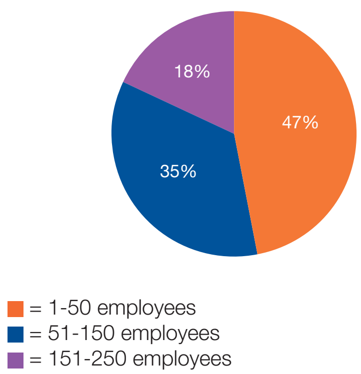
pension scheme design in smaller firms: workforce under pensioned with affordability the key issue

This is the sixth Smaller Firms Pensions Survey the ACA has conducted since 1996. The survey attracted 394 responses from firms to a questionnaire issued in June 2008. Of those responding to the survey:

- just under a half employ 50 people or fewer (which is a higher proportion than in earlier biennial surveys), around one-third employ between 51 - 150 employees and just under a fifth employ between 151 to 250 employees (see figure 3).

- the firms covered by the survey are active across a wide range of sectors, with the largest being business services, retail, logistics/transport, manufacturing, hi-tech, print/publishing, construction and financial services.

Figure 3: Breakdown of firms responding to the survey (by employee numbers)



Whilst the majority of firms responding to this survey offer pension schemes, employees in smaller firms are not generally well covered by pension arrangements. Government figures indicate that eight out of ten smaller firms with 250 or fewer employees offer no pension scheme at all. And, where pensions are provided, take up is often poor (45% in this survey, overall).

Altogether, it is estimated that there are at present around 6.6 million private sector employees saving in work-based schemes, 3.6 million in traditional trust based defined benefit (2.7 million) and defined contribution schemes (0.9 million), with a further 3 million in Group Personal Pensions and Stakeholders (although the latter figures are far from certain). This leaves over 12 million private sector employees reliant on individual personal pensions (perhaps 2 million) to boost their retirement income or solely reliant on the State pensions and other savings.

It is these numbers that drove the Pensions Commission and then the Government towards both auto-enrolment (where employees are opted into a work-based scheme and have to positively opt out) and the launch of personal accounts – a new work based and centrally administered scheme for employees in firms that do not offer an exempt employer-sponsored scheme (i.e. a scheme at least equivalent to personal accounts).

levelling-down already occurring: firms responding to this survey predominantly rely on Group Personal Pension (GPP) and Stakeholder offerings (see Figure 4 and Statistical Appendix, Table 2). Echoing the findings of two year ago, again there is evidence of closures of trust-based defined contribution schemes in favour of more lightly regulated, lower-cost (and generally lower coverage) Stakeholder plans. This is a worrying levelling-down in the sector, where provision is already weak, ahead of the impact from personal accounts.

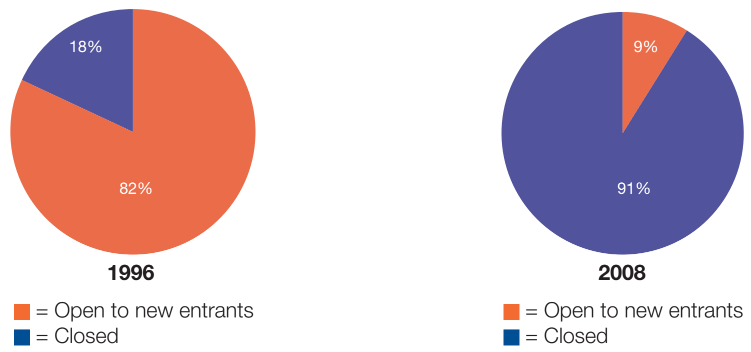
Levelling-down of pensions is underway

Figure 4: Main types of pension arrangements offered by respondents

Type of pension scheme	Percentage of firms with type of schemes	Percentage closed to new entrants	Percentage also closed to future accruals	Average scheme membership (of eligible employees)
Group stakeholder scheme	48%			24%
Group personal pension scheme	44%	4%		56%
Defined benefit scheme	16%	91%	48%	65%
Trust based defined contribution scheme	13%	30%		58%
Mixed defined benefit / defined contribution	5%			62%

The move away from more costly and more heavily regulated pension arrangements is particularly clear this year. Open defined benefit schemes (in the main final salary based) are, for example, a very rare beast compared to previous surveys of the sector stretching back to 1996. In that year, the survey found just 18% of defined benefit schemes in smaller firms were closed to new entrants. Today, just over a decade later, over 90% of defined benefit schemes run by these smaller firms are now closed to new members and nearly half are closed to future accruals.

Figure 5: The demise of defined benefit schemes has been rapid in the sector

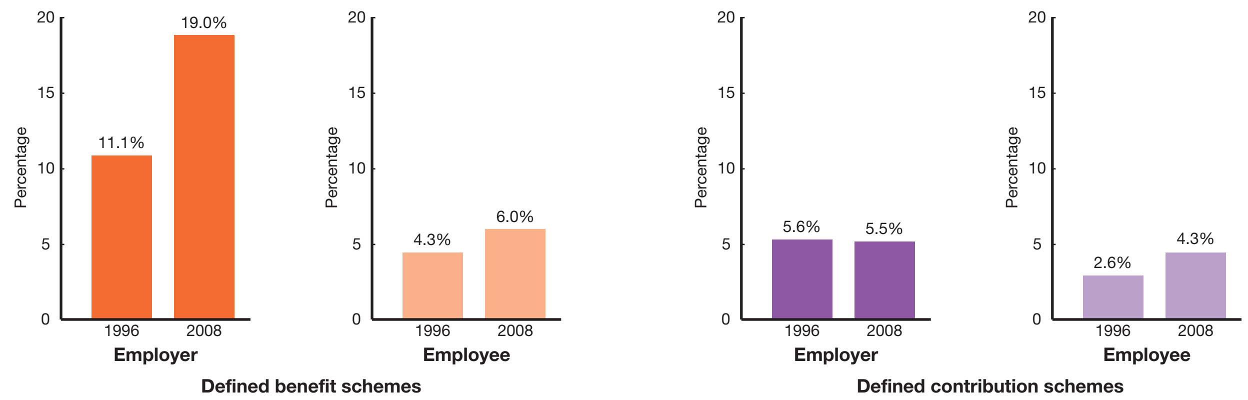


(**Sources:** 1996 and 2008 ACA Smaller Firms Pension Surveys)

The scale of this transformation in pension provision should not be under-estimated over a relatively short period. Whilst it remains true that defined benefit schemes in the sector were only ever run by a minority of employers, close to nine out of ten defined benefit schemes in 1996 had fewer than 100 members and were run by these smaller businesses, with typical employer contributions of 11% of earnings – how times have changed!

pension contributions: this year's survey found **typical employer contributions into defined benefit schemes remain high, averaging 19% of earnings, with total combined contributions at 25% of earnings. This contrasts with employer contributions into defined contribution schemes, which on average are running at less than 6% of earnings (around 9% to 10% of earnings, including employee contributions)** (see Figure 6 and Statistical Appendix, Table 12). The overall differences in contributions are large, but so too is the likely pension outcome as the years unfold, albeit the contribution 'gap' does narrow somewhat when contracting-out and life assurance costs are taken into account.

Figure 6: Average pension contributions into schemes – changes since 1996



(**Source:** 1996 and 2008 ACA Smaller Firms Pension Survey)

Passing 100% investment and longevity risk to employees may seem attractive given current cost and regulatory burdens, but many employees and the newly retired in the decades ahead are unlikely to be so happy unless levels of contributions into pensions rise appreciably, so pension outcomes improve rather than reduce over the years.

It is noteworthy that average contributions into defined contribution schemes, as a percentage of earnings, have increased hardly at all since our first survey's findings in 1996. Indeed, the majority of smaller schemes (with 50 or fewer employees) reporting this year are receiving combined employer and employee contributions into their defined contribution schemes significantly less than the average of 8.2% of earnings we reported in 1996 (see Figure 7 and Statistical Appendix, Table 13).

Figure 7: 2008 defined contribution levels broken down by firms' sizes

Average employer contributions	1 – 50 employees	51 – 150 employees	151 – 250 employees	All
Defined contribution	4.5%	5.2%	6.0%	5.5%
Group Personal Pension	3.9%	4.7%	5.5%	4.7%
Group Stakeholder scheme	1.7%* (4.0%)	2.2%* (4.5%)	3.2%* (5.0%)	2.0%* (4.3%)

Average employee contributions	1 – 50 employees	51 – 150 employees	151 – 250 employees	All
Defined contribution	3.2%	4.0%	4.7%	4.3%
Group Personal Pension	3.0%	4.1%	4.3%	3.9%
Group Stakeholder scheme	3.0%	3.2%	3.8%	3.1%

Average combined contributions	1 – 50 employees	51 – 150 employees	151 – 250 employees	All
Defined contribution	7.7%	9.2%	10.7%	9.8%
Group Personal Pension	6.9%	8.8%	9.8%	8.6%
Group Stakeholder scheme	4.7%* (7.0%)	5.4%* (7.7%)	7.0%* (8.8%)	5.1%* (7.4%)

(**Note: *** Figure is average, including 54% of employers who pay 'nil' contribution. Figure in brackets is average of those schemes where employers pay a contribution. Source: ACA 2008 Smaller Firms Survey.)

Given the change in investment conditions and projected life-spans over the period, this is an alarming finding. The typical reduction in the amount of pension received per pound of savings in defined contribution over the period is around 70%! The need for defined contribution scheme and plan contributions to increase appreciably to deliver pensions that anywhere approach expectations is very evident indeed (see Figure 8).

Figure 8: Based on a man contributing £200 per month for 20 years in an average with profits policy (the picture remains much the same if mixed (managed) funds are used instead of with-profits)

Maturity Date	Fund value at retirement	Annuity rate per £1,000	Pension annuity amount (pa)
January 1996	£287,413	£79.14	£22,706
January 1998	£263,716	£66.16	£17,407
January 2000	£242,842	£59.47	£14,402
January 2002	£206,501	£56.70	£11,669
January 2004	£148,725	£44.60	£6,593
January 2006	£121,452	£41.20	£4,964
January 2008	£112,942	£44.90	£5,073
July 2008	£107,984	£47.20	£5,097

Note: Single life annuity at age 65, escalating by 3% per annum.
(**Source:** Watson Wyatt Worldwide and the annual survey of with-profit pensions published by *Money Management* magazine.)

affordability remains key to increased pension coverage: the survey also examines the reasons why firms do or do not offer pensions at present and why employees do or do not join. Cost and affordability are seen as key issues for both firms and employees in this decision, meaning government plans to encourage wider scheme membership through auto-enrolment may be fraught with difficulties, particularly if economic conditions remain tough (see Figure 9 and Statistical Appendix Tables 4 and 5). A strategy that sees contributions increase alongside reductions in corporate and personal taxation or NI contributions might overcome this problem, but the prospect of such a scenario, given the Chancellor's recent Pre-Budget Report, is not encouraging at all.

Danger that Parliament is not keeping pace with pensions in the private sector

Figure 9A: 'Top 3' reasons why firms do not provide a pension scheme and / or an employer's contribution to a stakeholder scheme

Ranked order	
1	Cost – cannot afford employer contributions
2	Employees prefer non-pension benefits
3	Scheme inappropriate due to staff turnover

Figure 9B: 'Top 3' reasons why firms think individuals do not join the existing pension scheme

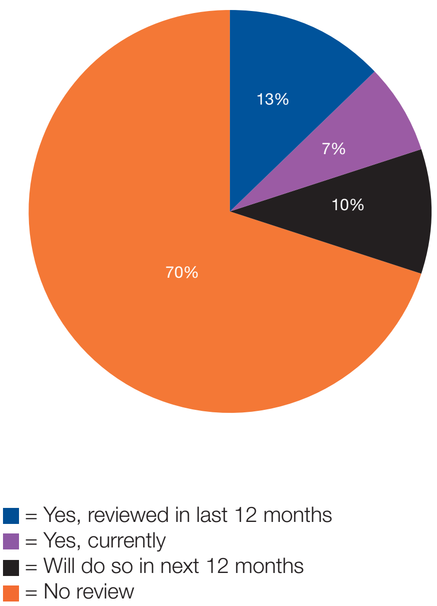
Ranked order	
1	Prefer to spend income
2	Cost – cannot afford
3	Lack of interest

Firms that offer pension schemes in the sector generally do so because they believe a scheme helps to build their image as a caring employer, motivating and encouraging loyalty from employees. The smallest firms, however, are split in their rationale. The largest group report a paternalistic view as their reason for running a scheme whilst, in contrast, a sizeable second grouping say they were driven by legislation to establish a scheme under the Stakeholder rules (see Statistical Appendix, Table 3). It needs to be remembered, however, that the number of smaller firms offering pension schemes or contributions is low (no more than 20% of small firms), underscoring the conclusion that in the sector generally, pensions are not seen as benefits that are key in recruitment and retention.

Overall, it is perhaps surprising that only 30% of firms responding to the survey set a target as to what they wish to spend on pensions. This may reflect the dominance of defined contribution schemes in the sector and, hence, the certainty in employer costs that these arrangements bring. Many firms may therefore believe that cost control is well in hand. Where a target is set, this varies between the smallest firms (employing up to 50) and larger firms (up to 250 employees), with the latter targeting a figure nearly double that of the former. The mean target is 7% of payroll (see Statistical Appendix, Table 7). Whilst a greater number of the larger firms in the sector (where defined benefit schemes are more widespread) are looking to reduce their pension spend now and into the future, this is an objective for only a minority of firms - well under 10%. Of course, this finding may reflect the fact that belt-tightening, including closures of schemes, has already occurred (see Statistical Appendix, Tables 8 and 9).

Compared to two years ago, the number of schemes under review has reduced markedly. This seems understandable given the high activity reported in 2006. The impact of the legislative changes being debated over the last two years ahead of the introduction of personal accounts in 2012 might also explain a slowing down in scheme reviews as businesses await the detail of changes, including auto-enrolment and the rules and regulations involved with personal accounts (see Figure 10 and Statistical Appendix, Table 10, for a breakdown by firm size).

Figure 10: Reviews of existing pension arrangements



The most common structural changes that have taken place over the last 5 years have been the closure of defined benefit schemes (both to new entrants and future accruals). Some 25% of firms with 150 or more employees report the closure of such schemes to new entrants over the period. The other prevalent changes are an increase in employees covered by defined contribution schemes, a trend towards more flexible benefits packages being offered and schemes being placed in wind up (see Statistical Appendix, Table 6).

Close to 9 out of 10 of these firms presently have a normal retirement age of 65, with most of the remainder - particularly amongst larger firms - reporting ages between ages 61-64. Only a very few schemes have moved to a later age than 65.

However, by 2020, the expectation is that the typical retirement age will be age 67 (see Statistical Appendix, Table 11).

defined benefit schemes: deficits and recovery periods improve, but…

As might be expected, defined benefit schemes in the smaller firms sector tend to be confined to the larger firms employing over 150 employees. These are mature arrangements with, on average, fewer than 30% of members being drawn from current employees (see Statistical Appendix, Tables 2 and 28).

Other survey findings were:

- **73% of defined benefit schemes reporting to the survey have been advised by their actuaries that they are in deficit.**

- **the average ongoing funding level as a percentage of scheme liabilities at the last actuarial assessment was 75% (an improvement of 6 points since 2006).**

Nevertheless, despite the improvement in funding over the last two years, still 83% of schemes reported recommendations from actuarial advisers that increased contributions were required.

Reflecting this need:

- **employer contributions into schemes have or are being increased by close to a fifth, rising on average from 16% to 19% of earnings.**

- **around 3 out of 10 schemes also say employee contributions have or are being increased to help boost funding levels. Where this is occurring, again the increase in contributions is of the order of 10%, rising from 5.5% to 6.0% of earnings.**

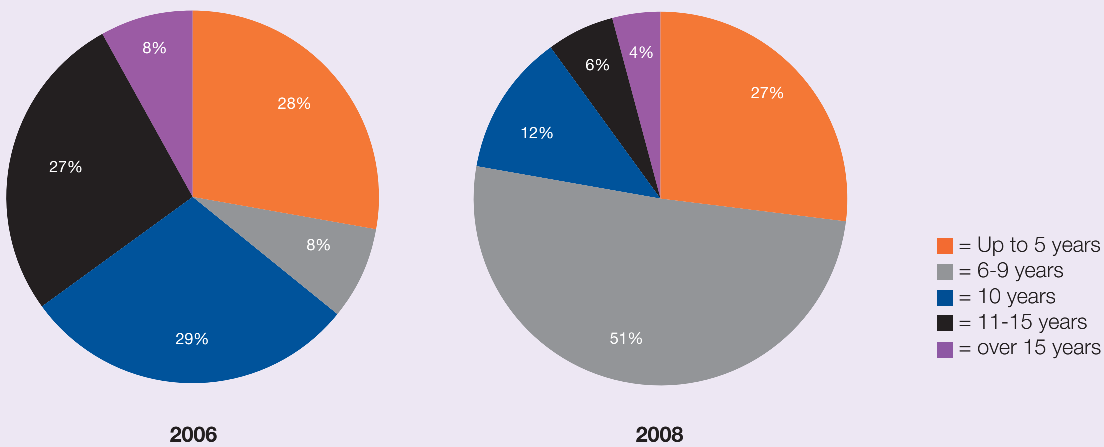
- **a small number of schemes have revised their accrual rate from 60ths to 80ths to reduce forward cost increases** (see Statistical Appendix, Table 29 and 31).

Expected recovery periods to remove scheme deficits still vary widely, but with a concentration in the range between 6 to 10 years. **The median recovery period is now 8 years, down from the 10 years reported two years ago.** This is a considerable overall reduction over the last 2 years reflecting the gentle urgings of the Pension Regulator to reduce these wherever possible. Some 10% of firms expect to need a longer recovery period than 10 years, as against 35% of firms two years ago (see Figure 11 and Statistical Appendix, Table 30).

Of course, the impact of the credit crunch and the deteriorating economic position in the autumn of 2008 is likely to mean that both funding positions and recovery periods in general will take a backward step as new actuarial valuations report over the coming months.

Quality pensions are draining away

Figure 11: Period over which firms say scheme deficits are expected to be removed



(**Source:** 2006 and 2008 ACA Smaller Firms Pension surveys)

Changes in defined benefit investment strategy are also taking place, with close to three-quarters of schemes reporting a change to a greater proportion of bonds and a lower proportion of equities as part of their forward strategy.

Whilst these smaller schemes remain more heavily equity oriented compared to the figures reported by larger schemes, the trend continues to be away from equities in favour of a broader spread of investments, the most popular being a higher percentage of gilts, corporate bonds and property. There are also indications that some schemes are looking to incorporate hedge funds and private equity investments, although these remain small elements within the total assets of these smaller schemes.

Over nine out of ten defined benefit schemes use 4 or fewer fund managers, with the minority of passive managers typically, on average, controlling close to half the assets under management (see Statistical Appendix, Tables 32 to 34).

A clear majority of firms oppose the Pension Protection Fund levy being in part determined by reference to a scheme's investment strategy (see Statistical Appendix, Table 35).

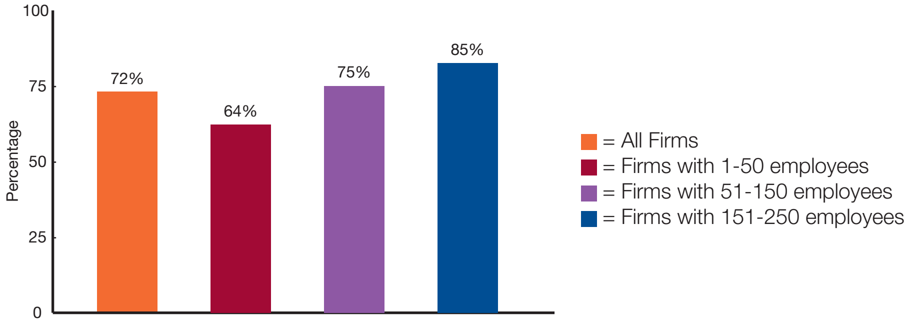
defined contribution schemes: default funds dominate market

The smaller the firm, the more likely it is that members will be included within Group Personal Pension and Stakeholder defined contribution arrangements, as opposed to trust based schemes (see Statistical Appendix, Table 2). Most principal schemes are open and have a preponderance of active employee members (see Statistical Appendix, Tables 36 and 37).

Whilst, investment choices are wide in terms of the categories of assets offered, arrangements run by the smallest firms are less likely to offer overseas and global equity, bonds and life-style options. **Some 64% of the smallest firms say their schemes offer a default fund, as against 85% of the larger firms employing up to 250 people**. The use of life-styling is less prevalent in the schemes run by the smallest firms.

Where a default fund is available, take up is around 90% of members across all scheme sizes.

Figure 12: Defined contribution schemes offering a default fund



Whereas 57% of the larger firms in the sector report over 10 fund options are available to members, this reduces to 32% of the smallest firms with such an offering. However, this reflects a considerable extension of fund options since 2006, particularly by schemes at the smaller end of the sector. Again, at the smaller end, the number of fund managers being offered has increased over the last 2 years.

Over half the firms say they facilitate financial advice or offer retirement counselling services to members or employees at retirement, with a surprising number saying they meet the full cost – most notably those at the larger end of the sector. **Some 13% of firms also say they assist retirees with their open market option prior to purchasing an annuity by providing them with a range of quotations** (see Statistical Appendix, Tables 38 to 42).

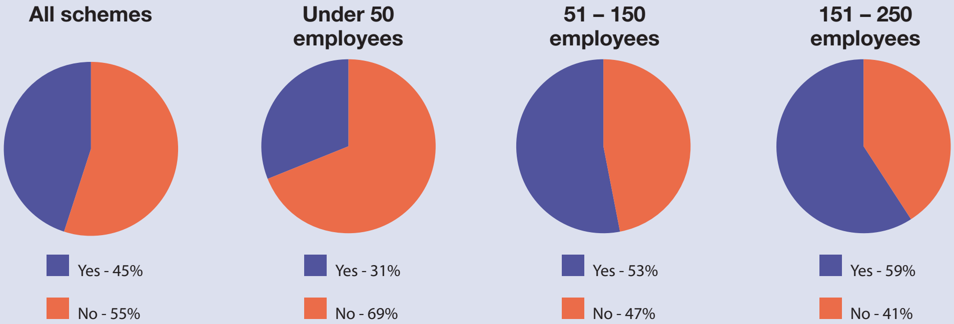
summary of the first report: views on personal accounts and auto-enrolment

The initial report of this year's survey concentrated on the views of these smaller firms about the likely impact of personal accounts and auto-enrolment. We re-visit the results below in summary form and consider whether the conclusions drawn in the first report will have been affected by the changed economic situation that emerged in the autumn of 2008.

most firms say their existing scheme will fail the personal accounts exemption test: to secure exemption from offering personal accounts, firms will have to offer to all employees over age 22 a scheme where the employer contributes at least 3% of band earnings (between approximately £5,435 to £36,000 per annum – 2008/09 figures, to be updated to maintain value) and the combined employer and employee contribution, including tax relief should be at least 8% of these band earnings (note: the calculation is based on overall earnings, including items such as overtime, bonuses and commission, not just basic salary). **The survey found 55% of firms who said their existing pension scheme was not sufficient to secure exemption from personal accounts.**

The heat from personal accounts may melt away existing smaller schemes

Figure 13: Percentage of firms with pension scheme(s) that offer for all employees over age 22 a scheme that is at least as good as the proposed personal accounts scheme



Of those firms saying their existing scheme will fail the test, close to a half said this was because of restrictions in eligibility rules to join schemes with 63% saying that their contribution levels (most notably in the smallest firms with 50 or fewer employees) fall below the personal account minimum levels (see Figure 13 and Statistical Appendix, Table 16). Whether the recently proposed self-certification proposals that will allow firms to exempt themselves from personal accounts (if they feel they meet or exceed its standards) will change this finding is unclear, particularly as the detailed regulations allowing this have not yet been produced.

31% of firms may reduce benefits or abandon existing pension schemes: only 6% of firms in our sample auto-enrol employees into their pension scheme. **On average, the survey found 38% of employees have not joined or have actively opted out, where these schemes are considered to be of exempt standard (i.e. better than personal accounts). However, participation rates in all schemes covered by the survey (including those saying they are not of exempt standard) are considerably lower at 45% of eligible membership** (see Statistical Appendix, Tables 14 and 17).

Under the new legislation, firms that wish to be exempted from personal accounts must meet the minimum contribution standards **and** auto-enrol all employees aged 22 or over into an existing or new scheme or schemes.

The survey examined firms' responses to auto-enrolment and found:

- **31% of firms said they would reduce existing scheme benefits (to mitigate the cost of higher membership) or would close their scheme in favour of personal accounts. Amongst the smallest firms (under 50 employees) this rises to 38%.**

- **only 28% of firms said they are prepared to enrol all employees into their defined contribution scheme without reducing benefits** (none were prepared to do this into a defined benefit scheme!).

- **a third of employers expect to restrict entry to their own work-based scheme, presumably on the basis that this attracts contributions (or benefits) above those offered by personal accounts, with the balance of employees being offered personal accounts.** Whether this division of the labour force is either advisable, or is administratively practical, only time will tell (see Statistical Appendix, Table 15).

Overall, firms with existing pension schemes expect participation rates through auto-enrolment to increase on average from around 45% to 66% (effectively, a near 50% increase in take-up). Post-2012, their expectation is that opt-outs will range from 34% in employer sponsored schemes through to 40% where personal accounts are offered instead, with this rising to 46% in the smallest firms (see Figure 14 and Statistical Appendix, Table 18).

Figure 14: Firms presently offering a pension scheme: estimates of how many individuals will continue to opt-out of either employer-sponsored schemes or personal accounts after 2012

SIZE OF FIRM	Percentage opting-out from employer-sponsored schemes	Percentage opting-out from personal accounts
1-50 employees	39%	46%
51-150	31%	38%
151-250	26%	31%
All	34%	40%

However, among firms where there is no employer sponsored scheme at present, 75% of these firms expect opt-out rates to exceed 40% (see Statistical Appendix, Table 19).

Affordability, once again sits at the top of the list of why opt out rates will be at these levels. Concern over the loss of means-tested benefits in retirement figures only fourth in the list (see Figure 15 and Statistical Appendix, Table 18).

Figure 15: What are the main reasons why firms think employees will opt-out? (in ranked order)

All firms	1-50 employees	51-150 employees	151-250 employees
Cost – cannot afford contributions	Cost – cannot afford contributions	Cost – cannot afford contributions	Prefer to spend income
Prefer to spend income	Prefer to spend income	Prefer to spend income	Cost – cannot afford contributions
Have other savings/pensions	Have other savings/pensions	Have other savings/pensions	Concern over loss of means-tested benefits in retirement
Concern over loss of means-tested benefits in retirement	Concern over loss of means-tested benefits in retirement	Concern over loss of means-tested benefits in retirement	Have other savings/pensions

These estimates of opt out levels could, of course, be influenced by the communications strategy running up to 2012, one way or the other, and certainly by the economic climate. As things stand, the opt-out estimates suggest that personal accounts might increase workplace pension coverage by some 4 – 6 million, somewhere between the pessimistic and central scenarios modelled by the Pensions Policy Institute (see: *Will personal accounts increase pension saving?* published by the Pensions Policy Institute, November 2007).

However, total pension coverage may increase by considerably less than this as it is estimated that presently 2 million employees are saving in personal pensions but not also in a work-based scheme. Many of these individuals could move from a personal pension into either personal accounts or some other employer sponsored scheme that is on offer, probably with higher contributions overall, because of the employer contribution. Also, with the smallest firms predicting higher opt out rates, the impact of this could be to pull down the number of extra pension savers to the lower end of the forecasts.

Since we conducted the survey in the summer, the economic situation has deteriorated considerably and the Chancellor has mapped out the need for taxes to increase in the run up to the launch of personal accounts in 2012 and, we suspect, beyond that date. Given the extra calls on individuals' pockets that seem likely over the upcoming years, coupled with the need for many people to reduce high borrowings, the expectation must be that opt out rates from both existing schemes and personal accounts will be higher than envisaged a few months ago. Already, one major life office has predicted between 1 to 1½ million individuals may abandon pension contributions over the next two years.

two-thirds of firms predict levelling-down and more scheme closures: two-thirds of firms said that, as a result of the government's pension reforms, they expected a general levelling-down in per capita pension contributions from firms that presently offer superior schemes to personal accounts (see Statistical Appendix, Table 22). Presumably, this view is based on the additional costs that will otherwise arise from higher levels of participation (net of opt outs) in these schemes due to auto-enrolment. Therefore, the expectation seems to be that levelling-down will be more prevalent where there are more schemes above the exemption level of personal accounts, presumably where there are larger employers with participation rates that are at present modest.

Close to two-thirds of firms also expect the reforms to lead to an increase in scheme closures. This might be explained in a number of ways:

- many smaller firms may be reluctant to run more than one scheme if contribution levels between an existing scheme, where not all employees are members, and personal accounts are broadly similar.

- other firms may be reluctant to meet the 'unknown' extra cost of a much higher level of scheme participation through auto-enrolment into their existing scheme and will take the view that the run-up to 2012 is an appropriate time to review their benefits package. This may lead onto the closure of more existing defined contribution (or defined benefit) schemes in favour of lower-cost schemes or to reliance thereafter on personal accounts.

The survey found amongst employers not running an existing scheme that views had hardened against personal accounts. Half now oppose them, compared to just 17% two years ago (see Statistical Appendix, Table 20).

Only a minority of these smaller firms were aware of the deregulatory measures included in this year's Pensions Act. Those that were aware, felt they would make little significant improvement to provision (see Statistical Appendix, Table 21). **Only 13% of firms feel 'A-Day' has achieved its aims in simplifying pensions and in encouraging people to save for retirement and, despite the improvement in the future to State pensions, still 84% of firms feel the reforms are inadequate** (see Statistical Appendix, Table 23 and 24).

Slightly under a third of these smaller firms feel public policy should promote new risk sharing schemes, which are generally going to be more suitable for mid to large sized firms, but it is noteworthy that close to half of the firms employing fewer than 50 employees are interested in such schemes. An explanation for this might be that those working in such firms feel the most buffeted by taking on investment and longevity risks with, perhaps, less independent advice available to either employers or employees (see Statistical Appendix, Table 25).

On balance, although experiences of the Pensions Regulator are less frequent in this sector, the majority of firms are either content with the way his powers have been used since its inception or, on balance, feel those powers have been under-used (see Statistical Appendix, Table 26).

Statistical Report:

ACA 2008 Smaller Firms Survey results

Respondents: 394

December 2008

Throughout, figures in (brackets) are 2006 survey results, where appropriate

Respondents by size of firm and types of pension schemes offered

Throughout, figures in (brackets) are 2006 survey results, where appropriate

Table 1: Breakdown of respondents (394) by employee numbers

ALL FIRMS		Breakdown of workforce	
	Total	Permanent	Temporary / Contract
1-50 employees	47%	92%	8%
51-150	35%	94%	6%
151-250	18%	89%	11%

Table 2: Types (if any) of pension arrangements firms offer and percentage of current eligible employees in membership

Type of pension scheme	Percentage of firms with type of schemes	Percentage closed to new entrants	Percentage also closed to future accruals	Average scheme membership (of eligible employees)
Defined benefit scheme	16% (22%)	91% (74%)	48% (41%)	65% (63%)
Trust based defined contribution scheme	13% (18%)	30% (24%)	- (7%)	58% (60%)
Mixed defined benefit / defined contribution	5% (2%)	- (40%)		62% (77%)
Career average scheme				
Group personal pension scheme	44% (45%)	4% (9%)		56% (61%)
Group Stakeholder scheme	48% (43%)			24% (22%)
Industry-wide scheme:	1% (1%)	- (25%)		- (83%)
Small self administered scheme	3% (8%)			
No scheme offered	9% (8%)			

Main scheme designs: distribution by size of firms

Size of Firms	Defined benefit	Mixed DB/DC	Trust based Defined contribution	Group Personal Pension	Group Stakeholder	No scheme
1 – 50 employees	1%	-	14%	23%	59%	89%
51 – 150 employees	17%	20%	33%	54%	34%	9%
151 – 250 employees	82%	80%	53%	23%	7%	2%

Table 3: Why do firms provide employees with a pension arrangement?

In ranked order

ALL FIRMS	1-50 employees	51-150 employees	151-250 employees
The scheme helps us build our image as a caring employer, motivating and encouraging loyalty from employees (2)	We consider it is our responsibility as a good employer to make adequate arrangements for our employees retirement (2)	The scheme helps us build our image as a caring employer, motivating and encouraging loyalty from employees (2)	The scheme helps the firm to compete in the labour market for skilled staff (3)
We consider it is our responsibility as a good employer to make adequate arrangements for our employees retirement (1)	We were required to introduce a scheme under the Stakeholder rules (4)	The scheme helps the firm to compete in the labour market for skilled staff (3)	We consider it is our responsibility as a good employer to make adequate arrangements for our employees retirement (1)
The scheme helps the firm to compete in the labour market for skilled staff (3)	The scheme helps us build our image as a caring employer, motivating and encouraging loyalty from employees (3)	We consider it is our responsibility as a good employer to make adequate arrangements for our employees retirement (1)	The scheme helps us build our image as a caring employer, motivating and encouraging loyalty from employees (2)
We were required to introduce a scheme under the Stakeholder rules (6)	The scheme helps the firm to compete in the labour market for skilled staff (1)	The scheme has been in existence for many years and could not easily be discontinued (4)	The scheme has been in existence for many years and could not easily be discontinued (5)
The scheme has been in existence for many years and could not easily be discontinued (5)	The scheme enables us to retire employees on reasonable pensions in an orderly way to suit our business (5)	The scheme enables us to retire employees on reasonable pensions in an orderly way to suit our business (5)	The scheme enables us to retire employees on reasonable pensions in an orderly way to suit our business (4)
The scheme enables us to retire employees on reasonable pensions in an orderly way to suit our business (4)	The scheme has been in existence for many years and could not easily be discontinued (6)	We were required to introduce a scheme under the Stakeholder rules (6)	We were required to introduce a scheme under the Stakeholder rules (6)

Table 4: Main reasons why firms think individuals do not join a firm's existing pension scheme

In ranked order

ALL FIRMS	1-50 employees	51-150 employees	151-250 employees
Prefer to spend income (2)	Cost - cannot afford (2)	Prefer to spend income (2)	Prefer to spend income (1)
Cost - cannot afford (1)	Prefer to spend income (1)	Cost - cannot afford (1)	Lack of interest (4)
Lack of interest (3)	Lack of interest (4)	Lack of interest (3)	Cost - cannot afford (2)
Don't trust financial services Industry (4)	Have own personal pension (5)	Don't trust financial services Industry (4)	Have own personal pension (3)
Have own personal pension (5)	Don't trust financial services Industry (3)	Don't trust firm's scheme (6)	Prefer non pension savings (6)
Prefer non pension savings (6)	Prefer non pension savings (6)	Prefer non pension savings (7)	Don't trust financial services Industry(5)
Don't trust firm's scheme (7)	Don't trust firm's scheme (7)	Have own personal pension (5)	Don't trust firm's scheme (7)

Table 5: Reasons why firms do not provide a pension scheme and / or an employer's contribution to a stakeholder scheme

In ranked order

Ranked order	
1	Cost – cannot afford employer contributions (1)
2	Employees prefer non-pension benefits (2)
3	Scheme inappropriate due to staff turnover (5)
4	There are insufficient competitive pressures to justify scheme (3)
5	We believe State pension arrangements are adequate (6)
6	We have fewer than 5 staff and do not need to offer a stakeholder scheme (7)
7	Cost – have had to withdraw employer contributions (4)

Pension trends

Table 6: What Structural pension chages have firms made in the last few years?

ALL FIRMS	Last Year				Within Last 5 Years			
SPLIT BY FIRM SIZE	All	1-50	51-150	150+	All	1-50	51-150	150+
Closed defined benefit scheme to new entrants	**3%**		2%	12%	**13%**	1%	20%	25%
Closed defined benefit scheme to future accruals	**3%**		1%	12%	**4%**		3%	14%
Sought buy-out quotation for defined benefit scheme	**1%**		1%	3%	**1%**		1%	3%
Concluded part or full buy-out of defined benefit scheme					**1%**		1%	2%
Introduced defined contribution scheme to some employees	**1%**		1%	3%	**6%**	1%	10%	8%
Introduced defined contribution scheme to all employees	**2%**		1%	8%	**6%**	1%	10%	11%
Converted existing DB scheme to mixed DB/DC scheme					**4%**		5%	11%
Placed one or more schemes in wind-up	**1%**		2%		**6%**	2%	7%	12%
Established a flexible benefits package with wider benefits option	**2%**		2%	6%	**7%**	1%	12%	9%
Introduced access to group benefits largely paid by employees					**1%**			3%
Contracted some / all members back into State Second Pension	**2%**		3%	3%	**2%**		3%	2%

Table 7: Do firms have a target as to what they will spend each year on pensions as a percentage of payroll?

SIZE OF FIRM	Yes	Median target as percentage of payroll
1-50 employees	32% (19%)	6% (6%)
51-150 employees	23% (25%)	7% (7%)
151-250 employees	38% (26%)	10% (12%)
All	**30%** (24%)	**7%** (8%)

Table 8: Are firms trying to reduce current spending on pensions?

SIZE OF FIRM	Yes	No
1-50 employees	2%	98%
51-150	9%	81%
151-250	16%	84%
All	**7%** (13%)	**93%** (87%)

Table 9: Are firms trying to reduce the cost of providing pensions that will be earned by employees in the future?

SIZE OF FIRM	Yes	No
1-50 employees	4%	96%
51-150	7%	93%
151-250	18%	82%
All	**8%** (21%)	**92%** (79%)

Table 10: Have firms reviewed their pension arrangements in the last 12 months or are they doing so now?

SIZE OF FIRM	All	1-50 employees	51-150	151-250
Yes, reviewed in last 12 months	**13%** (41%)	10%	14%	18%
Yes, currently	**7%** (16%)	8%	6%	8%
Will do so in next 12 months	**10%** (23%)	12%	8%	11%
No review	**70%** (20%)	70%	72%	63%

Table 11: What is the typical age at which employees retire from businesses at the present time?

SIZE OF FIRM	All	1-50 employees	51-150	151-250
Above age 65	**3%**	2%	5%	3%
Age 65	**85%** (87%)	90%	83%	77%
Ages 61-64	**7%** (2%)	5%	7%	10%
Age 60	**4%** (10%)	3%	5%	7%
Below 60	**1%** (1%)	-	-	3%

How is this expected to change by 2020?

SIZE OF FIRM	Typical retirement age (median)
1-50 employees	67 years
51-150	67 years
151-250	68 years
All	**67 years**

Pension contributions

Table 12: Average of contributions paid into pension scheme (as a percentage of total earnings)

Average employer contributions							
	2003	2004	2005	2006	2007	2008	Longer-term
Defined benefit scheme	13.8%	15.5%	15.6%	17.7%	19.5%	19.0%	16.0%
Defined contribution	5.7%	5.8%	6.0%	6.1%	5.4%	5.5%	NA
Group Personal Pension	NA	NA	5.4%	5.5%	4.7%	4.7%	NA
Group Stakeholder scheme	2.2%	2.4%	3.2%	3.3%	2.0%* (4.3%)	2.0%* (4.3%)	NA

Average employee contributions							
	2003	2004	2005	2006	2007	2008	Longer-term
Defined benefit scheme	5.1%	5.5%	5.8%	6.1%	6.0%	6.0%	6.5%
Defined contribution	4.1%	4.1%	4.1%	4.2%	4.2%	4.3%	NA
Group Personal Pension	NA	NA	3.2%	3.7%	3.9%	3.9%	NA
Group Stakeholder scheme	2.4%	2.4%	3.1%	3.1%	3.0%	3.1%	NA

Average combined employer and employee contributions							
	2003	2004	2005	2006	2007	2008	Longer-term
Defined benefit scheme	18.9%	21.0%	21.4%	23.8%	25.5%	25.0%	22.5%
Defined contribution	9.8%	9.9%	10.1%	10.3%	9.6%	9.8%	NA
Group Personal Pension	NA	NA	8.6%	9.2%	8.6%	8.6%	NA
Group Stakeholder scheme	4.6%	4.8%	6.3%	6.4%	5.0%* (7.3%)	5.1%* (7.4%)	NA

(**Note:** * Figure is average, including 54% of employers who pay 'nil' contribution. Figure in brackets is average of those schemes where employers pay a contribution)

Table 13: 2008 defined contribution levels broken down by firms' sizes

Average employer contributions	1 – 50 employees	51 – 150 employees	151 - 250 employees	All
Defined contribution	4.5%	5.2%	6.0%	**5.5%**
Group Personal Pension	3.9%	4.7%	5.5%	**4.7%**
Group Stakeholder scheme	1.7%* (4.0%)	2.2%* (4.5%)	3.2%* (5.0%)	**2.0%*** (4.3%)

Average employee contributions	1 – 50 employees	51 – 150 employees	151 - 250 employees	All
Defined contribution	3.2%	4.0%	4.7%	**4.3%**
Group Personal Pension	3.0%	4.1%	4.3%	**3.9%**
Group Stakeholder scheme	3.0%	3.2%	3.8%	**3.1%**

Average combined contributions	1 – 50 employees	51 – 150 employees	151 - 250 employees	All
Defined contribution	7.7 %	9.2%	10.7%	**9.8%**
Group Personal Pension	6.9%	8.8%	9.8%	**8.6%**
Group Stakeholder scheme	4.7%* (7.0%)	5.4%* (7.7%)	7.0%* (8.8%)	**5.1%*** (7.4%)

(**Note:** * Figure is average, including 54% of employers who pay 'nil' contribution. Figure in brackets is average of those schemes where employers pay a contribution)

Personal accounts and other pension reforms

Table 14: How many firms running an employer-sponsored pension scheme auto-enrol employees into these schemes(s)?

SIZE OF FIRM	Yes	No
1-50 employees	4%	96%
51-150	7%	93%
151-250	8%	92%
All	**6%**	**94%**

Table 15: What will be the likely response of firms to auto-enrolment and personal accounts by 2012?

Employees	ALL	1 - 50	51 - 150	151 - 250
We will probably restrict entry to our firm's scheme and auto-enrol the balance of employees into personal accounts	**32%** (29%)	36%	30%	29%
We will probably opt-in all employees to the firm's existing defined contribution scheme, so we will avoid introducing personal accounts	**28%** (34%)	9%	42%	51%
We will probably close our firm's scheme(s) so all employees would then opt-in to personal accounts	**19%** (9%)	28%	12%	4%
We will probably opt-in all employees to the firm's existing scheme so we will avoid introducing personal accounts, but we will mitigate against the higher scheme membership from auto-enrolment by reducing benefits	**12%** (16%)	10%	13%	15%
We have no firm's scheme, so in 2012 we would opt all employees into personal accounts	**9%**	17%	3%	1%
We will probably opt-in all employees to the firm's existing defined benefit scheme so we will avoid introducing personal accounts	**-** (4%)	-	-	-

Table 16A: Percentage of firms with pension scheme(s) that offer for all employees over age 22 a scheme that is at least as good as the personal accounts scheme (i.e. firms contribute at least 3% on earnings between approx £5,435 to £36,000pa) and the combined employer and employee contribution including tax relief is at least 8% of earnings?

SIZE OF FIRM	Yes	No
1-50 employees	31% (22%)	69% (78%)
51-150	53% (55%)	47% (45%)
151-250	59% (57%)	41% (43%)
All	**45%** (49%)	**55%** (51%)

If 'no' (to part 16A) do these firms offer a pension scheme that is restricted in who it is offered to (ie. not to all employees?)

SIZE OF FIRM	Yes	No
1-50 employees	49% (29%)	51% (71%)
51-150	41% (30%)	59% (70%)
151-250	67% (45%)	33% (55%)
All	**49%** (33%)	**51%** (67%)

If 'no' (to part 16A) do these firms or employees presently pay lower pension contributions into the firm's scheme than those that might be required into personal accounts?

SIZE OF FIRM	Yes	No
1-50 employees	84% (86%)	16% (14%)
51-150	44% (88%)	56% (12%)
151-250	21% (50%)	79% (50%)
All	**63%** (81%)	**37%** (19%)

Table 17: For firms offering a pension scheme(s) at least as good as personal accounts: percentage of eligible employees that have or have not joined the scheme?

SIZE OF FIRM	Joined	Not joined
1-50 employees	56% (58%)	44% (42%)
51-150	64% (62%)	36% (38%)
151-250	66% (64%)	34% (36%)
All	**62%** (62%)	**38%** (38%)

(**Note:** including schemes that firms say are not as good as personal accounts reduces the average participation rate to 45%)

Table 18: Firms' presently offering a pension scheme: estimates of how many will continue to opt-out of either employer-sponsored schemes or personal accounts after 2012

SIZE OF FIRM	Percentage opting-out from employer-sponsored schemes	Percentage opting-out from personal accounts
1-50 employees	39%	46%
51-150	31%	38%
151-250	26%	31%
All	**34%**	**40%**

What are the main reasons why these firms think employees will opt-out?

In ranked order

All firms	1-50 employees	51-150 employees	151-250 employees
Cost – cannot afford contributions	Cost – cannot afford contributions	Cost – cannot afford contributions	Prefer to spend income
Prefer to spend income	Prefer to spend income	Prefer to spend income	Cost – cannot afford contributions
Have other savings/pensions	Have other savings/pensions	Have other savings/pensions	Concern over loss of means-tested benefits in retirement
Concern over loss of means-tested benefits in retirement	Concern over loss of means-tested benefits in retirement	Concern over loss of means-tested benefits in retirement	Have other savings/pensions

Table 19: Firms presently not offering a pension scheme: estimates of how many of their workforce are expected to opt-out of personal accounts?

SIZE OF FIRM	Higher than 40%	30-39%	20-29%	10-19%	Under 10%
All	75%	6%	9%	6%	4%

Table 20: Firms presently not offering a pension scheme: the introduction of personal accounts will lead to an increase in costs at these firms which presently provide no employer-sponsored scheme. How is this cost likely to be met??

SIZE OF FIRM	All
Firm would meet cost (ie. owner / shareholders)	**27%** (22%)
Customers would have to meet cost (ie. increased prices)	**15%** (12%)
Staff would have to meet cost (ie. reduced wages or employment levels)	**29%** (20%)
Combination of all three answers above	**29%** (46%)

Overall, how do these firms (not running an employer-sponsored scheme at present) react to personal accounts?59%

SIZE OF FIRM	Strongly in favour	Marginally in favour	Indifferent	Against	Strongly against
All	**6%** (13%)	**26%** (43%)	**17%** (27%)	**29%** (9%)	**22%** (8%)

Table 21: The current Pensions Bill going through Parliament (now the 2008 Pensions Act) includes some deregulatory measures that are designed to help employers keep existing schemes running or open new ones where none exist. What is the overall assessment of the proposals?

Will make a significant contribution	Are marginal improvements, but worth having	Will have no significant effect	Unaware of proposed changes
2%	12%	27%	59%

Table 22: Firms agreeing with the following statements about the Government's pension reform policies

	All firms	1 – 50 employees	51 – 150 employees	151 - 250 employees
The Government's pension reforms will lead to a general levelling-down of pension contributions per employee by organisations presently offering better schemes	**67%**	64%	69%	72%
The Government's pension reforms will lead to an increase in the number of employees covered by pension schemes, with little or no adverse effect on existing schemes	**48%**	61%	39%	31%
The Government's reforms will lead to an increase in the number of closures of existing schemes	**63%**	58%	66%	71%
Overall, the Government's stated policy of promoting employer-sponsored pensions is moving in the right direction	**43%**	42%	46%	41%

Table 23: Overall, do firms think 'A-Day' achieved its aims of simplifying pensions and encouraging people to save in retirement

Yes	Made no difference	No
13%	52%	35%

Table 24: Views on the State Pension now and in the future (when it will be indexed to earnings)

	Now	In the future
More than adequate	2%	2%
Adequate	8%	14%
Somewhat inadequate	64%	60%
Very inadequate	26%	24%

Table 25: Do firms support the transfer of risk to individuals that is inherent in the move to defined contribution pensions or do they feel public policy should promote more risk sharing between employers and employees?

	All firms	1 – 50 employees	51 – 150 employees	151 - 250 employees
Support 100% risk transfer to individuals	**70%**	54%	82%	90%
Support public policy promoting new risk sharing schemes	**30%**	46%	18%	10%

Table 26: What are firms' experiences of the use of its powers by the Pensions Regulator since its formation

Powers appear to have been under-used	Powers have been used appropriately	Powers have been over-used
32%	50%	18%

More analysis: Defined benefit schemes

Table 27: Status of main defined benefit scheme

	All	1 – 50 employees	51 – 150 employees	151 - 250 employees
Open to new members	**9%** (26%)	- (13%)	7% (26%)	10% (29%)
Open to future accrual	**52%** (59%)	- (41%)	45% (57%)	54% (64%)
In the process of winding-up	**8%** (-)	100% (-)	18% (-)	4% (-)
Contracted out of S2P/SERPS	**75%** (77%)	- (66%)	64% (73%)	79% (82%)

Table 28: Distribution of scheme membership

	Active	Deferred	Retired
Membership: by categories	**28%** (32%)	**48%** (39%)	**24%** (29%)

Table 29: Have firms been advised by the actuaries to their schemes that they are in deficit when considering as an ongoing entity?

SIZE OF FIRM	Yes	Average ongoing funding level as a percentage of liabilities at the last actuarial assessment	Have scheme actuaries recommended an increase in contributions?
1-50 employees	100% (100%)	86% (70%)	100% (92%)
51-150 employees	81% (76%)	76% (66%)	86% (88%)
151-250 employees	71% (86%)	74% (72%)	79% (92%)
All	**73%** (83%)	**75%** (69%)	**83%** (90%)

If 'yes' what was the average employer contribution rate before and after the change?

Before	After
16% (16%)	19% (23%)

Has there been / will there be any increase in employee contributions?

Yes	No
26% (41%)	74% (59%)

If 'yes' what was the average employee contribution rate before and after the change?

Before	After
5.5% (4.6%)	6.0% (6.8%)

Table 30: What is the expected period over which firms expect to remove their deficit?

Up to 5 years	6-9 years	10 years	11-15 years	Over 15 years
27% (28%)	51% (8%)	12% (29%)	6% (27%)	4% (8%)
Median	**8 years (10 years)**			

Table 31: Has there been any change in the accrual of benefits in the last few years?

Move from 60ths to 80ths	**5%** (6%)

Table 32: Has the investment strategy of schemes changed to a greater proportion in bonds and lower proportion in equities?

Yes	No
72%	28%

Table 33: Current split of pension scheme assets and anticipated change over next year

		Change in next year		
	Present	**Increase**	**Decrease**	**No change**
UK Equities	**33%** (43%)	4% (5%)	23% (19%)	73% (76%)
Overseas Equities	**23%** (17%)	9% (9%)	7% (11%)	84% (80%)
Gilts: fixed interest	**10%** (13%)	10% (12%)	1% (2%)	89% (86%)
Gilts: index linked	**9%** (5%)	12% (11%)	2% (1%)	86% (88%)
Corporate bonds	**9%** (8%)	6% (8%)	1% (-)	93% (92%)
Property	**5%** (4%)	4% (10%)	2% (1%)	94% (89%)
Private Equity	**2%** (2%)	3% (5%)	- (1%)	97% (94%)
Hedge Funds	**<1%** (1%)	2% (4%)		98% (96%)
Immediate annuities	**<1%**	3%		96%
Deferred annuities	**<1%**	2%		95%
Active currency	**<1%**	2%		98%
Commodities	**<1%**	5%		95%
Infrastructure	**<1%**	5%		95%
Tactical Asset Allocation	**1%**	5%		95%
Cash/deposit	**6%** (5%)	8% (6%)	3% (11%)	89% (83%)
Other	**-** (2%)		- (2%)	- (96%)

Table 34: How many fund managers do schemes use?

	Percentage
One	42%
2 to 4	51%
5 to 10	7%
More than 10	-
Median	2

How many of these are passive managers and what percentage of assets do they manage?

Percentage that are passive managers	Average percentage of assets managed
22%	47%

Table 35: The Pension Protection Fund has indicated that investment strategy should be considered in determining a fund's PPF Levy. Do you agree or disagree with the levy being partly determined in this way?

Agree	Disagree
43%	57%

More analysis: Defined contributions

Table 36: Status of main defined contribution scheme

	All	1 – 50 employees	51 – 150 employees	151 - 250 employees
Open to new members	**92%** (92%)	91%	92%	96%
In the process of winding-up	- (1%)	-	-	-
Contracted out of S2P/SERPS	**4%** (11%)	2%	4%	8%

Table 37: Distribution of scheme membership

	Active	Deferred	Retired
Membership: by categories	**82%** (84%)	**14%** (11%)	**4%** (5%)

Table 38: Investment choices offered by schemes

	All	1-50 employees	51-150 employees	151-250 employees
UK Equities	**93%** (95%)	95%	98%	90%
Overseas Equity	**88%** (73%)	80%	90%	90%
Global Equity	**91%** (79%)	85%	95%	90%
Gilts: Fixed interest	**81%** (66%)	80%	82%	80%
Gilts: index linked	**79%** (66%)	75%	82%	83%
Corporate bonds	**80%** (66%)	75%	80%	85%
Cash / deposit	**97%** (96%)	95%	95%	98%
With-profits	**57%** (70%)	57%	55%	58%
Mixed managed fund	**97%** (92%)	95%	98%	97%
Life-style/default	**72%**	64%	75%	85%

Table 39: Schemes offering a default strategy

All	1-50 employees	51-150 employees	151-250 employees
72%	64%	75%	85%

Is it a Lifestyle fund?

All	1-50 employees	51-150 employees	151-250 employees
78%	62%	82%	100%

Percentage of members it is estimated are invested in the default fund

All	1-50 employees	51-150 employees	151-250 employees
88%	88%	86%	90%

Table 40: Fund options offered to members

	All	1 – 50 employees	51 – 150 employees	151 - 250 employees
Under 5	**26%** (36%)	36% (53%)	18% (39%)	21% (24%)
6 - 10	**32%** (24%)	32% (34%)	36% (16%)	22% (32%)
Over 10	**42%** (40%)	32% (13%)	46% (45%)	57% (44%)

Is more than one fund manager offered?

	All	1 – 50 employees	51 – 150 employees	151 - 250 employees
Only 1	**56%** (64%)	55% (86%)	58% (65%)	54% (54%)
2 - 10	**39%** (34%)	40% (14%)	38% (34%)	38% (39%)
Over 10	**5%** (2%)	5% (-)	4% (1%)	8% (7%)

Table 41: Firms saying they facilitate financial advice/retirement counselling services to members/employees

All	1-50 employees	51-150 employees	151-250 employees
53%	55%	54%	48%

Firms who say the cost is fully met by the employer

All	1-50 employees	51-150 employees	151-250 employees
42%	25%	55%	62%

Table 42: Firms who say they either assist retirees by helping them with their open market option prior to purchasing an annuity by providing them with a range of quotations or who leave this to the individual

	All	1 – 50 employees	51 – 150 employees	151 - 250 employees
Provide range of quotations	**13%**	9%	17%	14%
Leave to individual	**87%**	91%	83%	86%

conclusion: survey results allied to economic conditions must prompt re-think of pensions policies

This final report on the results of the *2008 ACA Smaller Firms Pension Survey* highlights not only 'where we are', but also the fragility of pension provision in smaller firms: firms where the success or failure of the Government's latest reforms to a large degree will lie. The Government led Stakeholder pension reforms introduced just 7 years ago have largely failed, with a much lower take-up than was planned. Hence, the latest reforms look to extend pension coverage by way of auto-enrolment and personal accounts to all firms with one or more employees. This contrasts with the present situation, where only around 1 in 5 smaller employers offer any kind of pensions.

However, this latest survey suggests that the bench-mark for personal accounts and auto-enrolment may have been set at a very challenging level for many smaller firms and could well, as a result, lead to further extensive levelling-down of existing schemes and more scheme closures. That would be a worrying outcome, particularly if it also is accompanied by high levels of opt outs post-2012. The dire economic situation that has unfolded after we sought feedback to the survey questionnaire, and the likelihood of increased taxes in the years ahead, suggest the worst possible backcloth to the launch of both personal accounts and auto-enrolment.

Four other conclusions follow:

- **the administrative workability of the personal accounts scheme, certainly within existing timetables, remains almost totally unknown.** Over the next two to three years, we will see just how possible it is to build a theoretical structure that meets the challenge of administering the ebbs and flows at over a million firms and at what cost. We will then have to wait a little longer to see if the practice can match the theory. In particular, we are concerned whether investment charges will be sufficiently below what is presently possible to warrant the establishment of a further raft of costly pension administration. The evident heavy reliance on e-administration by employers and members to meet the low-cost target is also concerning given the numbers and security issues involved. A major failure in administration at an early stage could be devastating to the success of the personal accounts.

- **the communication campaign in the run up to the launch of this scheme must be much more effective than that for Stakeholder pensions.** Inevitably, it will need to address the issue of how small pots might impact on State benefits in retirement and, importantly, it will need to address the volatility associated with defined contribution arrangements. Restoring confidence in pension saving will not be easy in a low-return environment, particularly given recent experiences. How, in that communication, the genuine need for individual advice will be addressed remains unclear, particularly given the disappointing outcome detailed in recent reports on what has been achieved by financial education programmes.

- **probably most important, is the economic backcloth against which the personal accounts scheme is launched.** If economic conditions remain anything like as tough as at present, it is clear that opt-outs from schemes will be at a higher level than if conditions are improving. The level of opt-outs will be important from an early stage and will drive everyone's confidence in the sustainability of the reforms. If current economic conditions continue, some delay beyond 2012 will have to be considered. For the majority of smaller firms starting, as they are, from a base of no employer or employee pension contributions at all, the success of the launch is much more likely if this is at a time when both personal and corporate taxes are being gradually reduced to meet the phased introduction of contributions, presently over three years. Unfortunately, it is almost impossible to see when or if this benign climate might appear in the foreseeable future.

New financial incentives needed to boost pension provision

- **given the changed economic circumstances since the summer, and the evident and growing reluctance of firms to promote quality workplace pensions, it is probably time that we once again considered significant financial incentives to encourage employers to promote such schemes and for individuals to commit to long-term savings.** We seriously doubt auto-enrolment and personal accounts are now enough to achieve the Government's objectives. And certainly, its pension deregulation measures to date promise little. Without new incentives, carefully crafted to promote long-term savings, we fear failure of the current policy will lead onto either an ever increasing number of people falling on means-tested benefits or, in a desperate step to halt an ever increasing call on public spending, the final move to a 'one size fits all' policy of greater pension compulsion.

For further comment contact the Association of Consulting Actuaries on 020 7382 4594 or email acahelp@aca.org.uk

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