2018 ACA PENSION TRENDS SURVEY

Final Report – Call to act on automatic enrolment reforms

ASSOCIATION OF CONSULTING ACTUARIES

PRESS RELEASE: EMBARGO ON PUBLICATION UNTIL 2 JANUARY 2019

ACA SURVEY REPORT CALLS ON GOVERNMENT TO SET OUT ITS LONG-TERM PENSIONS POLICY ON AUTOMATIC ENROLMENT CONTRIBUTION LEVELS

31 December 2018: In the final report summarising the results of the *ACA's 2018 Pension trends survey*, the Association of Consulting Actuaries (ACA) has found support for only a small increase in minimum automatic enrolment (AE) pension contributions after 2019, despite three-quarters of employers forecasting that scheme participation rates will not fall when minimum contributions increase next April. The survey found cessation rates from AE schemes – the number of employees leaving AE schemes during and after the initial four week opt-out period – total typically 11 – 15% of employees. It is understood that most of those leaving after the initial month opt-out period are job movers[1].

The survey also found typically between 26-30% of employees presently are not eligible to be automatically enrolled into schemes, with this rising to 36-40% at small employers. These rates explain why over 9.24 million employees on low incomes, part-time workers or those too young or old are missing out on AE pensions. The report notes that when the self-employed are included, upwards of 13 million, largely private sector workers, are still not saving regularly for a private pension. This figure still far exceeds those successfully automatically enrolled (9.96 million)[2].

Key findings in the final report

The ACA survey, which was conducted over the summer and received responses from 349 employers of all sizes, found:

- **The median opt-out rate of employees at automatic enrolment staging was 6-10%, rising to 26-30% at employers with fewer than 10 employees.**
- **The median current cessation rate[3] of those enrolled in schemes (including initial opt-outs) is 11-15% of eligible employees, with higher levels at employers with fewer than 500 staff.**
- **88% of employers said the April 2018 increase in minimum AE contributions had not had an adverse impact on scheme participation, with 75% forecasting no decreases in contributing members as a result of the next increase in minimum contributions in April 2019. However, 65% of employers with fewer than 10 employees expected modest or substantial decreases in scheme participation in April 2019.**
- **81% of employers support the Government's proposal to extend automatic enrolment to those aged 18 or over, with a small majority also agreeing contributions should be from the first £ of earnings and that minimum statutory contributions should be increased post-April 2019.**

[1] The DWP *Employers Pension Provision Survey 2017*, page 76, notes around 7 out of 10 employees ceasing contributions after the initial opt-out period is due to a job move.

[2] Automatic enrolment declaration of compliance: report to 30 November 2018, published by the Pensions Regulator, December 2018.

[3] The data we have collected defined the current 'cessation rate' as being the total percentage of eligible employees now withdrawn from auto-enrolment (i.e. including initial opt-outs).

- **Should the Government ultimately decide to increase minimum AE contributions in, say April 2021, the median 'acceptable level' supported by employers was 4% employer + 4% employee contributions on all earnings[4]. Employers with 500 or more employees supported 5% + 5% on all earnings.**

The final report also summarises the results of the interim reports issued over the last two months covering:

- **Defined benefit schemes and new legislation**
- **Pensions tax**
- **Social Care**

The final report includes additional findings in these areas not published in previous interim findings. There is also a statistical appendix providing breakdowns of the responses by employers' size.

ACA Chair, Jenny Condron, commented:

"Our annual survey points to the need – part of which we see as an essential addition to the Government's 'next steps' pensions strategy – for a gradual, but essential increase in the default level of savings into DC schemes. This is needed to ensure that many more people save sufficient amounts for both an adequate retirement income and one where they have real choices to spend some of their accumulated savings as they approach or reach retirement.

"In our recommendations within the report we favour earnings from the first £ being eligible for AE by 2021 as proposed by the 2017 AE Review. At the same time, actions are needed to draw more of those on lower incomes and the self-employed into AE levels of contributions, beginning with the gig economy's quasi-employers. Then, from 2025, with due notice having been given, there is the need to gradually phase in rises in total contributions until they reach 12-14% of earnings. An 8% or 10% total contribution on all earnings, deemed acceptable by employers responding to the survey, is unlikely to generate the adequate levels of retirement income most people would want. We believe the phasing should alert workers so they too can plan ahead, whilst also recognising that there might be strained economic conditions over the period.

"It would be good if the forthcoming 2019 Pensions Bill mapped out a programme to build AE participation and pension contributions for years ahead, alongside the greater defined benefit 'flexibility' we have called for rather than it be a Bill that is largely dealing with the protection of members in legacy DB schemes. We believe in many areas there is cross-party support for broader and swifter action than presently seems to be envisaged."

The final report of the *2018 ACA Pension trends survey* is available here.

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[4] From April 2019, minimum AE contributions will be 8% of earnings between £6,136 and £50,000 earnings (2019/20 band), with a minimum of 3% from employers.

About the Association of Consulting Actuaries (ACA)

Members of the ACA provide advice to thousands of pension schemes, including most of the country's largest schemes. Members of the Association are all qualified actuaries and all actuarial advice given is subject to the Actuaries' Code. Advice given to clients is independent and impartial. ACA members include the scheme actuaries to schemes covering the majority of members of private sector defined benefit pension schemes. The ACA is the representative body for UK consulting actuaries, whilst the Institute and Faculty of Actuaries is the professional body.

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