



OCCUPATIONAL PENSIONS: THE END OF AN ERA?

A report on the third major survey into trends in the provision of pension arrangements and attitudes towards the introduction of Stakeholder Pensions in firms employing up to 250 people

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November 2001

PENSIONS IN SMALLER FIRMS

SURVEY 2001



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Cover photograph: 'Moment de Transition' by Salvador Dali

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Introduction

This is the third survey in our series on Pension Trends in Smaller Firms. In many ways it is the most disturbing.

Whereas our earlier surveys in 1996 and 1998 pointed to the low level of pension contributions into many schemes – a pattern again found this year – the more worrying evidence that has mounted since 1996 is the extent and degree of the decline in occupational provision over the period.

Clearly, it would not matter if the public was replacing occupational pensions with pensions or savings plans where they are contributing upwards of 10 per cent of earnings (much higher, of course, if they start in their 30s or 40s), but this is not the reality. As this survey report reveals from responses to our questionnaire and a range of other official publications, levels of occupational scheme coverage are falling back to those last seen in the late-50s, before the massive growth of private provision that followed. True, the sums of money invested in occupational schemes may seem huge at around £700 billion, but much of this relates to just a couple of thousand large schemes and people who have already retired.

The recently published Government Actuary's study showed only 46 per cent of employees in 1995 were covered by occupational schemes, down from 53 per cent in 1967. In simple terms, close to 2 million fewer people were in occupational schemes in 1995 compared to the earlier year. These statistics pre-date the impact of the 1995 *Pensions Act* and the additional regulation and costs of running schemes post-1995, which we all know has worsened the position.

The results of this survey conducted in early 2001 underscore the case that occupational pensions are in decline and at some pace. They confirm that whilst there may have been a growth in the number of smaller money purchase schemes, this is generally

not leading to levels of contributions sufficient to produce the levels of pensions that the public aspire to in order to enjoy a comfortable retirement. Moreover, more people now work for firms that offer no pension scheme and it has yet to be seen whether Stakeholder pensions will change this situation. Depending as they do on individuals' contributions, there is little evidence (rather, the contrary) that most people – particularly those in lower income target groups – have any spare cash to tuck away.

Stakeholder pensions also have to compete with other savings alternatives such as ISAs, which offer comparable tax treatment but which, unlike pensions, allow people to draw down – and spend – their savings before retirement.

For occupational schemes to grow in coverage again – harnessing the vital element of an employer's contribution – there will be a need for the Government to genuinely 'think the unthinkable'.

Barriers to provision created by well meaning but ill-advised regulation will have to be swept away. We will also need to see original thinking (unrestricted by short-term Treasury objectives) to boost ear-marked pension savings beyond the current level. The recent announcements of both a tax and regulatory simplification review are therefore welcome. This will need to be supported by, I suggest, reductions in levels of corporate and personal tax and national insurance, phased over a number of years, so change is effected as painlessly as possible. Simply urging people to save more for a long period ahead is unlikely to be enough. This may well require a new cross-party consensus.

Perhaps more than anything, and ironically for such a long-term issue, we need a sense of urgency.

What is clear is that public policy posturing, relying on hope rather than positive action, is not enough.

Mike Arnold
Chairman
November 2001



Mike Arnold

*"Levels of
occupational
scheme coverage
are falling back to
those last seen in
the late-50s"*

Executive Summary

This third *Smaller Firms Pensions Survey*, following up those we conducted in 1996 and 1998, attracted 418 responses from firms to a questionnaire issued in February 2001. The survey covers firms employing 250 people or fewer. These firms make up over 99 per cent of UK enterprises, employ over half the labour-force, generate over half of UK business turnover and run the majority of occupational pension schemes.

Background

The survey was conducted in the run up to the launch of Stakeholder pensions* from April 2001. As well as looking at the impact of Stakeholders schemes on firms, the survey examines occupational scheme coverage, the reasons why some firms offer no occupational arrangements, trends in provision and levels of employer and employee pension contributions.

The survey was conducted against a backdrop of mounting evidence that occupational pension provision is in a state of decline across all sizes of firms, with final salary* arrangements particularly affected:

- The recently published (January 2001) *1995 Government Actuary's Survey of Occupational Pension Schemes* indicates that although there are more schemes, there are some 400,000 fewer members of all types of occupational pension schemes than in 1991. Membership levels are at their lowest levels since the late 1950s. Only around 46% of employees (including part-timers) are now members of occupational schemes, down from 48% in 1991 and 53% in 1967 (the highpoint of occupational provision). These statistics pre-date the impact of the *1995 Pensions Act* and the resulting additional regulation and costs of running schemes post-1995.

- Between 1991 and 1995 the number of contracted-out final salary schemes in the private sector declined by around 15% in both middle sized firms (with 100 - 999 members) and larger firms (1000 and over members). Scheme membership also declined, at an even faster rate.
- The *1998 General Household Survey* confirms these findings. It reported that 28% of full-time men and 26% of full-time women now work for firms where there is no occupational pension scheme, compared to 19% and 21% (respectively) in 1989.
- Occupational scheme membership is at its lowest in firms employing fewer than 100 people and amongst those earning £300 per week or less.

Survey Sample

- 36% of the firms in the sample offer a Group Personal Pension* arrangement, with 38% offering occupational pension schemes. Just over a quarter of the sample offer no pension arrangements.
- Cost was the main reason given by firms as to why they do not offer an occupational pension arrangement. Some 9% of these firms have closed an occupational scheme in the last 10 years.
- The majority of these smaller firms offer life insurance protection for employees, with the incidence higher where occupational pension schemes are offered. Many offer medical insurance and Permanent Health Insurance to a proportion of employees.

"Some 9% of these firms have closed an occupational scheme in the last 10 years"

* See Glossary of Terms, pages 35 - 36

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Stakeholder Pensions

The survey was conducted in the final run up to the introduction of Stakeholder pensions. As such, it cut across some of the findings of other surveys published in the recent past indicating a widespread ignorance of Stakeholders, with the likelihood of widespread non-compliance by smaller firms in offering access to schemes.

- Only 2% of firms with no occupational scheme were unaware of Stakeholder pensions and only 16% expressed discomfort with their role of collecting and passing on employee contributions. Their greatest discomfort is over administrative costs and complexity, followed by the implications of poor scheme performance.
- A sizeable number of firms - 40% with occupational schemes and 81% with no occupational scheme (but some with Group Personal Pensions* - GPPs) say they are required to offer a Stakeholder scheme for at least some of their employees.
- Some 32% of firms with an occupational scheme and 15% of those with no scheme say they will make an employer's contribution to their Stakeholder scheme. However, 46% of firms with an occupational scheme and 69% with no scheme will not make any employer contribution.
- If Stakeholder pensions do not 'take off' and compulsory employer's contributions are brought in, over a half of firms with no scheme say that cost reductions would be needed elsewhere to finance even the smallest employer contribution. Firms that already offer occupational pensions seem more 'geared up' to extending contributions to a wider grouping. A large majority - 71% - of firms with occupational schemes say they could afford employer contributions of 3% of earnings or more.
- If Stakeholders are to rely on individual employee contributions, the *1999-2000 Family Expenditure Survey* shows that unless there is a major change in the pattern of how individuals spend their income, there is (on average) no apparent room for regular individual savings (say £20 per month) into Stakeholder Pensions for those on household incomes below £29,500 per annum.
- Over half of the firms running an occupational pension scheme or GPP say that they have decided to extend their existing arrangement to all Stakeholder eligible employees, however 35% of both groups have decided not to do this.
- Some 13% of firms with occupational schemes say they will gradually wind down existing arrangements for some or all staff, replacing these with a Stakeholder scheme. A further 20% will restrict entry to their occupational scheme, excluding either new employees or extra categories of employees.

Pension contributions and scheme costs

- Combined employer and employee contributions into final salary schemes, as a percentage of earnings, are 5 - 7% higher than into either occupational money purchase or Group Personal Pensions. Firms expect this 'contribution gap' to widen into the longer-term.
- The typical total pension (inclusive of state pension(s)) that the money purchase contributions reported in this survey are likely to deliver is between 30-60% of final earnings, subject to a consistent contribution record of upwards of 20 years.

* See Glossary of Terms, pages 35 - 36

- Over the last 5 years, 63% of firms with final salary schemes say their pension scheme costs (administration and contributions) have grown at a faster rate than other business overheads. Only 29% of firms with money purchase schemes say this.
- Increased compliance costs followed by external factors such as low inflation / low real investment returns, longevity and the Advance Corporation Tax change in 1997 are seen as the chief culprits leading to cost increases.

"In the last 5 years, 18% of firms have placed one or more schemes into winding-up"

Change: past and future

Our findings were that in the last 5 years,

- 24% of firms offering occupational pensions have set up a money purchase plan, with 12% moving some or all staff into such a scheme.
- 18% have placed one or more schemes into winding-up.

Over the next 10 years, in ranked order, firms agree that,

- the role of State pensions will decline.
- the proportion of occupational schemes that are money purchase will increase significantly.
- the requirement to purchase compulsory annuities (by age 75) from retirement savings will be eased or abolished*.
- compulsory employer contributions will be introduced.
- occupational pensions will decline in favour of Stakeholder schemes.

* If true, this might cause more problems than it solves, as a forthcoming ACA paper in the *Placard* series will consider.

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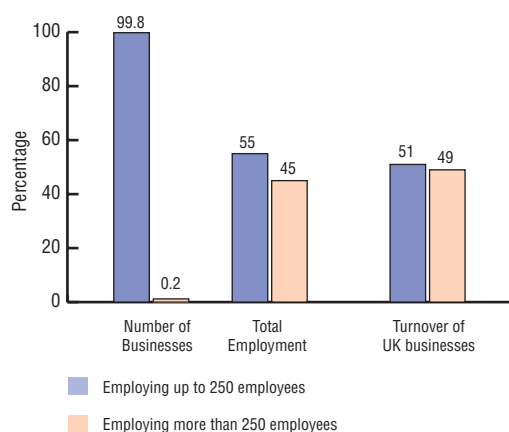
Background Brief

The majority of surveys undertaken by the pensions industry focus on larger employers and the pension and benefits provision enjoyed by their staff. In so doing, there is a danger that the UK pension picture is skewed, with not enough attention paid to those businesses which make up over 99 per cent of the enterprises in the economy.

As can be seen from Table 1:

- over half of the UK working population - around 12 million people - is engaged by firms employing 250 or fewer staff
- these smaller firms generate over half of all UK business turnover.

CONTRIBUTION OF SMALLER BUSINESSES TO UK ECONOMY



Money Purchase schemes dominate

Traditionally, the UK pensions scene has been described as one where final salary (defined benefit)* type schemes dominate the market. This is despite considerable comment and speculation in recent years suggesting that there is a movement in favour of money purchase (defined contribution)* schemes as our economy changes and firms react to growing regulatory and compliance costs.

Amongst larger schemes there has been some recent evidence of this change with several household names, employing thousands of people, closing entry to their final salary schemes with new employees having access only to money purchase.

Recent evidence from both the 1995 *Government Actuary's Survey of Occupational Pension Schemes* - published in January 2001 - and the 1998 *General Household Survey* confirms that there has been a significant switch into money purchase in both smaller and larger companies over the last decade. The scale of this change has probably been underestimated both in Government circles and across the pensions industry as a whole. Alongside changes in structure, occupational pension scheme membership, even including the growth in the number of money purchase and hybrid arrangements, has spun into serious decline. It is now at its lowest levels since the late 1950s.

“Over half the UK working population is engaged by firms employing 250 or fewer staff”

TABLE 1: CONTRIBUTION OF SMALLER BUSINESSES TO UK ECONOMY

	Proportion of Businesses, Employees and UK business turnover generated by:	
	Businesses employing up to 250 employees	Businesses with more than 250 employees
Number of Businesses	99.8% (3.69 million businesses)	0.2% (7000 businesses)
Total Employment	55%	45%
Turnover of UK Businesses	51%	49%

(Source: Small and Medium Enterprise Statistics for the UK, 1999)

* See Glossary of Terms, pages 35 - 36

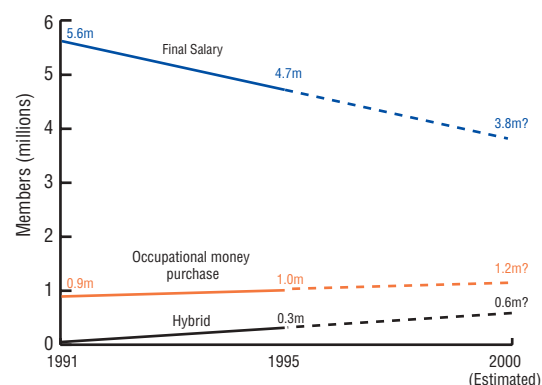
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The 1995 Government Actuary's Survey of Occupational Pension Schemes shows quite clearly that although there are more occupational schemes around - some 151,000 in all – there are disturbing trends in occupational provision that are likely to have a marked effect on the emerging pensions received by future generations of pensioners (see Tables 2 and 3):

TABLE 2: NUMBERS OF PRIVATE OCCUPATIONAL PENSION SCHEMES AND MEMBERS: BY TYPES OF SCHEMES AND CHANGES BETWEEN 1991 AND 1995
(Figures in brackets are percentage change since 1991)

THE DECLINE OF PRIVATE SECTOR FINAL SALARY SCHEMES



	Contracted-Out		Not contracted-Out		Total	
Final Salary						
No. of Members	Schemes	Members '000s	Schemes	Members '000s	Schemes	Members '000s
1-99	16,910 (-8.6%)	440 (+12.8%)	16,830 (+22%)	185 (+27.6%)	33,740 (+4.5%)	625 (+16.8%)
100-999	3,000 (-18%)	890 (-9.3%)	610 (+7%)	170 (+3%)	3,610 (-14.7%)	1,060 (-6.6%)
1000+	590 (-15.7%)	2,805 (-23.8%)	40 (-27.3%)	220 (-12%)	630 (-16.6%)	3,025 (-23%)
Totals	20,500 (-10.3%)	4,135 (-18%)	17,480 (+21.2%)	575 (+2.7%)	37,980 (+1.9%)	4,710 (-15.9%)
Money Purchase						
1-99	19,630 (+14.8%)	250 (+6.4%)	88,920 (+22%)	430 (+13.2%)	108,550 (+20.6%)	680 (+10.6%)
100-999	490 (+22.5%)	140 (+55.6%)	350 (+29.6%)	65 (+18.2%)	840 (+25.4%)	205 (+41.4%)
1000+	37 (+2.8%)	140 (+33.3%)	13 (+44.4%)	35 (-)	50 (+11.1%)	175 (+25%)
Totals	20,157 (+14.9%)	530 (+23.3%)	89,283 (+22%)	530 (+12.8%)	109,440 (+20.6%)	1,060 (+17.8%)
Hybrid schemes						
1-99	1,910	20	1,600	5	3,510	25
100-999	30	25	-	-	30	25
1000+	40	240	-	-	40	240
Totals - All types	42,637 (+5.5%)	4,950 (-9.5%)	108,363 (+23.7%)	1,110 (+7.8%)	151,000 (+18.0%)	6,060 (-6.8%)

(Source: 1991 and 1995 Government Actuary's Surveys. There is no comparative data for Hybrid schemes available for 1991)

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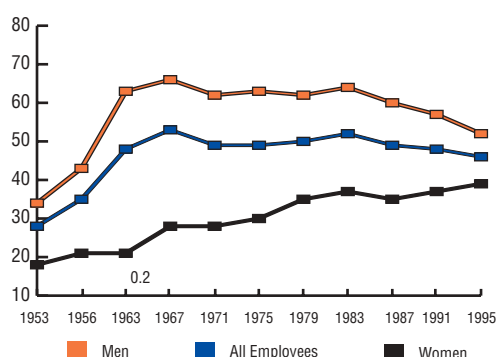
- Even though in 1995 there were more money purchase schemes covering employees in smaller firms than in 1991, the numbers of employees covered increased only marginally.
- By 1995, across all sizes of private sector firms there were 400,000 fewer members of all types of occupational pension schemes compared to four years earlier. Membership levels are at their lowest levels since the late 1950s.
- Only around 46% of employees (including part-timers) are now members of occupational schemes, down from 48% in 1991 and 53% in 1967 (the highpoint of occupational provision coverage).
- In 1967, there were close to 4 million more men (but 2 million fewer women) covered by occupational schemes than in 1995.
- Between 1991 and 1995 the number of contracted-out final salary schemes in the private sector declined by around 15% in both middle sized firms (with 100 - 999 members) and larger firms (1000

and over members). Final salary scheme membership declined at an even faster rate.

- The establishment of hybrid schemes - where the benefit is usually calculated as the better of two alternatives, for example on a final earnings and a money purchase basis - has had only a marginal affect on provision as there are relatively few such schemes, with few members.

Worryingly, these statistics pre-date the impact of the 1995 *Pensions Act* and additional regulation and costs of running schemes post-1995.

DECLINE IN SCHEME MEMBERSHIP
Percentage of employed who are members



“By 1995, across all sizes of private sector firms there were 400,000 fewer members of all types of occupational schemes compared to four years earlier”

TABLE 3: EMPLOYEES IN OCCUPATIONAL PENSION SCHEMES 1953-1995

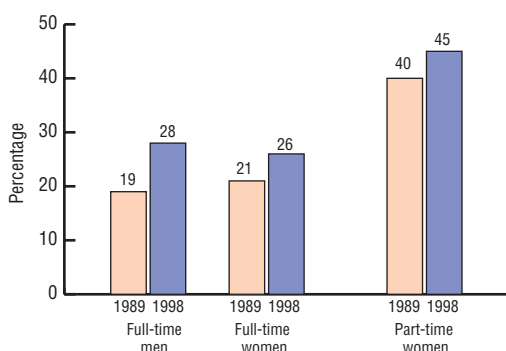
Year	Private Sector (millions)		Public Sector (millions)		Total members (millions)	Total employed (millions)	Percentage employed who are members		
	Men	Women	Men	Women			Men	Women	Total
1953	2.5	0.6	2.4	0.7	6.2	21.9	34	18	28
1956	3.5	0.8	2.9	0.8	8.0	22.2	43	21	35
1963	6.4	0.8	3.0	0.9	11.1	22.9	63	21	48
1967	6.8	1.3	3.1	1.0	12.2	23.2	66	28	53
1971	5.5	1.3	3.2	1.1	11.1	22.5	62	28	49
1975	4.9	1.1	3.7	1.7	11.4	23.1	63	30	49
1979	4.6	1.5	3.7	1.8	11.6	23.4	62	35	50
1983	4.4	1.4	3.4	1.9	11.1	21.1	64	37	52
1987	4.4	1.4	2.8	2.0	10.6	21.6	60	35	49
1991	4.5	2.0	2.3	1.9	10.7	22.5	57	37	48
1995	4.1	2.1	2.0	2.1	10.3	22.5	52	39	46

(Source: 1995 Government Actuary's Survey)

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THE PERCENTAGE OF EMPLOYERS WITH NO OCCUPATIONAL SCHEME HAS RISEN APPRECIABLY OVER A DECADE



The 1998 *General Household Survey* confirms the Government Actuary's findings and provides us with data up to 1998. It reports that:

- 28% of full-time men and 26% of full-time women now work for firms where there is no occupational pension scheme, compared to 19% and 21% (respectively) in 1989. (See Table 4).

The trend line is marked and significant over the last decade, affecting both men and women, whether they work full or part-time.

TABLE 4: PENSION SCHEME MEMBERSHIP: THE DECLINE IN OCCUPATIONAL SCHEME COVERAGE 1989-1998

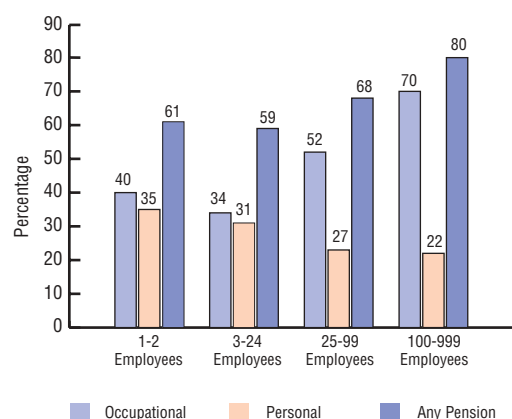
	Pension scheme coverage							
Year	1989	1991	1992	1993	1994	1995	1996	1998
Men full-time: Employer has scheme								
- Member	64%	61%	62%	60%	60%	58%	58%	57%
- Not a Member / DK	14%	17%	15%	16%	15%	16%	16%	15%
No employer scheme	19%	21%	21%	22%	24%	25%	25%	28%
Don't know, but not a member	2%	2%	2%	2%	1%	1%	1%	1%
Women full-time: Employer has scheme								
- Member	55%	55%	54%	54%	53%	55%	53%	56%
- Not a Member / DK	21%	21%	22%	22%	19%	20%	20%	17%
No employer scheme	21%	20%	21%	22%	27%	24%	26%	26%
Don't know, -but not a member	3%	3%	2%	2%	1%	1%	1%	—
Women Part-time: Employer has scheme								
- Member	15%	17%	19%	19%	19%	24%	26%	27%
- Not a Member / DK	37%	35%	34%	35%	33%	32%	28%	26%
No employer scheme	40%	39%	39%	38%	45%	42%	44%	45%
Don't know, but not a member	7%	8%	7%	7%	3%	3%	2%	2%

(Source: 1998 General Household Survey)

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PENSION SCHEME MEMBERSHIP BY BUSINESS SIZE: FULL TIME MEN



Weak occupational pension coverage in smaller firms

The 1998 General Household Survey underscores that occupational scheme membership is at its weakest in firms employing fewer than 100 people and amongst those earning £300 per week or less. (See Tables 5 and 6):

- only 52% of full-time men (and 59% of women) working in establishments employing 25-99 people are members of occupational schemes, with levels dropping to 34% and 38%, respectively, in firms employing fewer than 25 people.

TABLE 5: PENSION SCHEME MEMBERSHIP AND TAKE UP OF PERSONAL PENSIONS: BY BUSINESS SIZE

	Percentage of Employees with pensions by size of establishments					
Employee Numbers	1-2	3-24	25-99	100-999	1000+	All
Men full-time						
Occupational	40%	34%	52%	70%	85%	57%
Personal	35%	31%	27%	22%	14%	25%
Any Pension	61%	59%	68%	80%	88%	72%
Women full-time						
Occupational	26%	38%	59%	66%	77%	56%
Personal	15%	16%	15%	15%	12%	15%
Any Pension	38%	50%	66%	72%	81%	64%
Women Part-time						
Occupational	6%	17%	28%	42%	60%	27%
Personal	12%	10%	8%	10%	11%	9%
Any Pension	17%	26%	34%	47%	64%	34%

(Source: 1998 General Household Survey)

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- whilst personal pension coverage amongst men increases in smaller establishments, overall pensions coverage falls to 60% and below in firms employing fewer than 25 people. Even in

firms with up to 100 employees, pension coverage hovers around two-thirds at best - a third of employees having no pension other than that provided by the State.

As the employees of smaller firms form one of the target sectors for Stakeholder pensions, introduced from April 2001, it might be hoped these will help 'fill the gap'. However, as we will see later in this Report, there are considerable difficulties to be overcome in extending pension coverage in this area.

PERCENTAGE OF MALE EMPLOYEES WITH PENSIONS BY EARNINGS

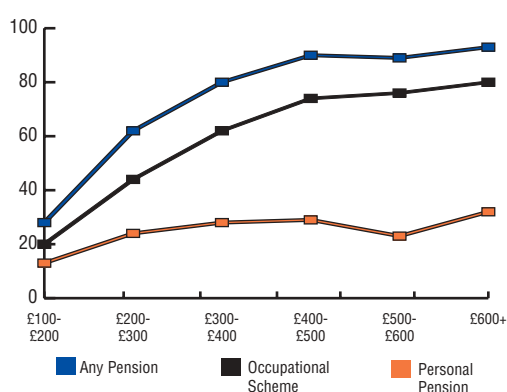


TABLE 6: PENSION SCHEME MEMBERSHIP AND TAKE UP OF PERSONAL PENSIONS: BY GROSS WEEKLY EARNINGS

Percentage of Employees with pensions by gross weekly earnings								
Gross Weekly Earnings	£0-£100	£100.01-£200	£200.01-£300	£300.01-£400	£400.01-£500	£500.01-£600	£600.01 or more	Total
Men full-time								
Occupational	(22%)	20%	44%	62%	74%	76%	80%	57%
Personal	(7%)	13%	24%	28%	29%	23%	32%	25%
Any Pension	(24%)	28%	62%	80%	90%	89%	93%	72%
Women full-time								
Occupational	22%	28%	58%	76%	84%	81%	88%	56%
Personal	5%	11%	17%	16%	18%	14%	29%	15%
Any Pension	24%	38%	69%	83%	90%	88%	93%	64%
Women Part-time								
Occupational	15%	43%	73%	(67%)				
Personal	6%	14%	15%	(12%)				
Any Pension	20%	52%	80%	(75%)				

(Source: 1998 General Household Survey. Figures in (brackets) represent small sample sizes)

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Survey Coverage

This third *Smaller Firms Pensions Survey*, following up those conducted by the ACA in 1996 and 1998, attracted 418 responses from firms to a questionnaire issued in February 2001. The survey covers firms employing 250 people or fewer.

Of those responding to the Survey:

- Half the firms employ 50 people or fewer. Of those firms offering occupational schemes, 63% employ over 50 people. Where firms offered no occupational scheme, 58% employ fewer than 50 people. (see Table 7)

BREAKDOWN OF FIRMS COVERED BY SURVEY

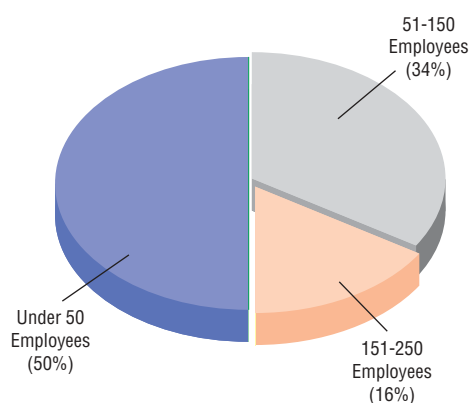


TABLE 7: SIZE OF FIRMS COVERED BY SURVEY

ALL FIRMS		Breakdown of their workforce	
	Total	Permanent	Temp / Contract
Under 50 employees	50%	92%	8%
51 - 150	34%	91%	9%
151 - 250	16%	92%	8%

FIRMS WITH OCCUPATIONAL SCHEMES		Breakdown of their workforce	
	Total	Permanent	Temp / Contract
Under 50 employees	37%	92%	8%
51 - 150	43%	89%	11%
151 - 250	20%	93%	7%

FIRMS WITH NO OCCUPATIONAL SCHEMES		Breakdown of their workforce	
	Total	Permanent	Temp / Contract
Under 50 employees	58%	93%	7%
51 - 150	28%	92%	8%
151 - 250	14%	91%	9%

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- The firms covered by the Survey are active across a wide range of sectors, with the largest groupings being manufacturing, retail and business services. (see Table 8)
- A high number of these firms employ upwards of a quarter of their staff who earn below £14,000 per annum (see Table 9)
- 36% of the firms in the sample offered a Group Personal Pension arrangement, with 38% offering one or more occupational pension schemes. Just over a quarter of the sample offered no pension arrangements. (see Table 10).
- Where an occupational money purchase scheme is offered a slightly higher percentage of employees are offered membership than is the case with final salary arrangements and GPPs. However, a higher percentage of staff join final salary arrangements, which in the main are contracted-out. Most money purchase arrangements in the sample are not contracted-out (see Table 11).

TABLE 8: FIRMS RESPONDING TO THE SURVEY PRIMARILY OPERATE IN THE FOLLOWING BUSINESS SECTORS

SECTOR	PERCENTAGE
Chemicals	4%
Food and drink	6%
Leisure	5%
Print / Publishing	6%
Logistics / Transport	4%
Consumer Products	3%
Manufacturing	20%
Oil / Mining	1%
Retail	10%
Engineering	3%
Financial Services	5%
High Tech	6%
Pharmaceuticals	1%
Construction	5%
Business Services	9%
Other	12%
Total	100%

TABLE 9: PERCENTAGE OF FIRMS EMPLOYING SIGNIFICANT PROPORTION (+25%) OF EMPLOYEES EARNING BELOW £14,000 PER ANNUM

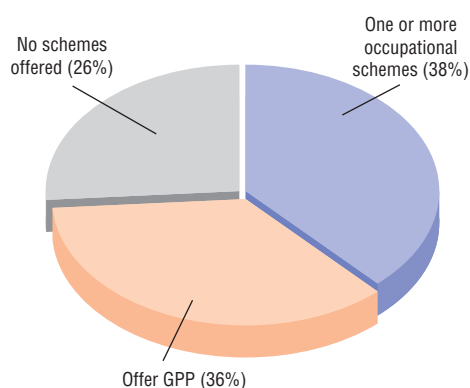
FIRMS WITH OCCUPATIONAL SCHEMES	Percentage with +25% employees earning below £14,000pa
Yes	43%
No	57%

FIRMS WITH NO OCCUPATIONAL SCHEMES	Percentage with +25% employees earning below £14,000pa
Yes	58%
No	42%

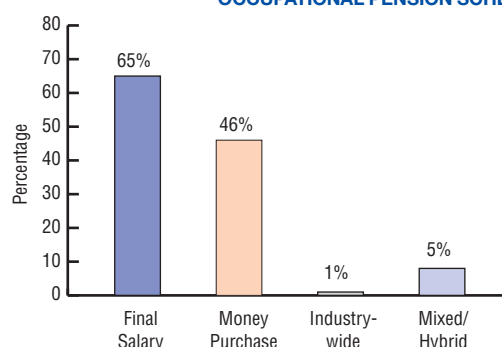
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PENSION ARRANGEMENTS OFFERED BY FIRMS COVERED BY SURVEY



BREAKDOWN OF THOSE OFFERING OCCUPATIONAL PENSION SCHEME



NB. Total exceeds 100% as some firms run more than one type of scheme

TABLE 10: FIRMS COVERED BY THE SURVEY OFFERING ONE OR MORE OCCUPATIONAL PENSION SCHEMES, GPPs OR NO SCHEMES AT ALL

Offer one or more occupational schemes	Offer Group Personal Pension	No schemes offered
38%	36%	26%

NB. A Group Personal Pension Scheme (GPP) does not count as an occupational scheme

BUT, MANY ARE NOT JOINING OCCUPATIONAL SCHEMES

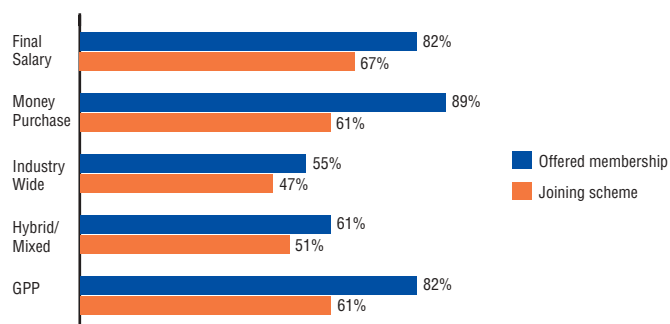


TABLE 11: FIRMS WITH OCCUPATIONAL PENSION SCHEMES AND GPPs: PERCENTAGE OF EMPLOYEES OFFERED MEMBERSHIP AND JOINING: BY DIFFERENT TYPES OF SCHEMES

Type of scheme	Average percentage of all employees offered membership	Average percentage of employees joining scheme	Percentage of schemes contracted out
Final salary	82%	67%	82%
Occupational money purchase	89%	61%	37%
Industry-wide schemes	55%	47%	Figures not provided
Hybrid / mixed schemes	61%	51%	Figures not provided
Group Personal Pension	82%	61%	Figures not provided

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- Cost was the principal reason given by firms as to why they did not offer an occupational pension arrangement. The second most common reason given was because the firm offered a Group Personal Pension (not defined as an occupational scheme). The administrative complexity of running a scheme came in only 4th in the list (see Table 12).
- Significantly, and echoing the results of the surveys referred to earlier, 9% of these firms with no occupational scheme have closed one in the last 10 years. Only slightly over three-quarters of these are now running a Group Personal Pension.

“Cost was the principal reason given by firms as to why they did not offer an occupational pension arrangement”

WHY DON'T FIRMS OFFER A PENSION SCHEME?

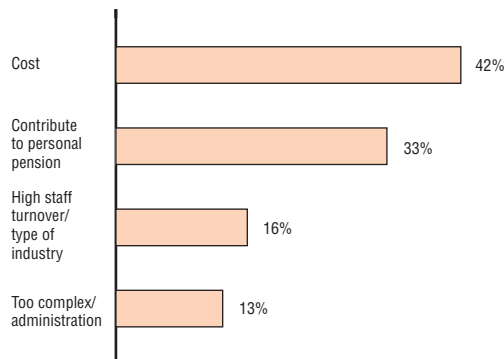


TABLE 12: FIRMS WITH NO OCCUPATIONAL PENSION SCHEMES: WHY DO YOU PRESENTLY NOT PROVIDE A PENSION SCHEME? (IN RANKED ORDER OF RESPONSES)

	Firms' ranking most important reason	Firms' ranking second most important reason
Cost	42%	10%
We contribute to personal pensions or GPPs	33%	3%
Pension scheme inappropriate because of high staff turnover and nature of industry	16%	4%
Pensions are too administratively complex and troublesome	13%	12%
Insufficient competitive or employee pressures	6%	20%

NB. 9% of these firms have closed occupational pension schemes since 1991

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Benefits beyond pensions

The majority of these smaller firms offer life insurance protection for employees, with the incidence higher where occupational pension schemes are offered (see Table 13).

Many offer medical insurance and Permanent Health Insurance (PHI) to a proportion of employees.

Subsidised canteens are more widespread than the incidence of employee benefits such as flex*.

Patently, there is only a thin spread of other benefits provided by firms, with the incidence of financial advice and counselling higher amongst firms not offering occupational arrangements. The survey found advice services of this nature are provided by some firms offering Group Personal Pension arrangements. Arguably, the need for advice is

greater here compared to occupational arrangements - and particularly final salary schemes - where fewer investment decisions are made by individual scheme members. Given the importance of investment decisions for the ultimate benefits delivered by money purchase schemes, it is hard to see how employees are able to make informed decisions without advice. However, where advice is not sourced by the employer, individuals are rarely willing or able to pay for it themselves. Therefore, it is clear that many employees may not be receiving adequate advice in this important area.

"Given the importance of investment decisions for the ultimate benefits delivered by money purchase schemes... it is clear that many employees may not be receiving adequate advice."

TABLE 13: OTHER EMPLOYEE BENEFITS PROVIDED BY FIRMS COVERED BY THE SURVEY

TYPE OF BENEFIT	Firms with occupational pension schemes		Firms with no occupational pension schemes	
	Yes - offered	If 'yes' average percentage of employees covered	Yes - offered	If 'yes' average percentage of employees covered
Life insurance	66%	78%	55%	69%
Company loans	4%		3%	
Share purchase plan	3%		2%	
Flexible benefits plan	8%		4%	
Private insurances	3%		2%	
Subsidised canteen	19%	96%	26%	94%
Medical insurance	52%	34%	53%	29%
PHI	46%	62%	33%	57%
Dental insurance	1%		1%	
Financial advice /counselling	4%		7%	

* See Glossary of Terms, pages 35 - 36

Stakeholder Pensions

The survey was conducted in the final run up to the introduction of Stakeholder pensions. As such, it contradicted some of the findings of other surveys published in the recent past indicating a widespread ignorance of Stakeholders and the likelihood of widespread non-compliance by smaller firms in offering access to schemes.

Our findings were promising in terms of compliance (See Table 14) in that:

- Only 2% of firms with no occupational scheme were unaware of Stakeholder pensions and only 16% expressed discomfort with their role of collecting and passing on employee contributions.
- Their greatest discomfort is over administrative costs and complexity, followed by the implications of poor scheme performance.

A sizeable number of firms - 40% with occupational schemes and 81% with no occupational scheme (including some offering GPPs) - say they are required to offer a Stakeholder scheme for at least some of their employees. (See Table 15).

Estimates suggested that as many as 150,000 firms employing over 5 million people needed to offer access to a Stakeholder by 8 October. It is clear that many have failed to hit this deadline.

Employer contributions into Stakeholders

Some 32% of firms with an occupational scheme and 15% of those with no scheme say they will make an employer's contribution to any Stakeholder scheme that they set up. However, 46% of firms with an occupational scheme and 69% with no scheme will not make any employer contribution at all (see Table 16).

FIRMS MOSTLY COMFORTABLE WITH STAKEHOLDER RESPONSIBILITIES

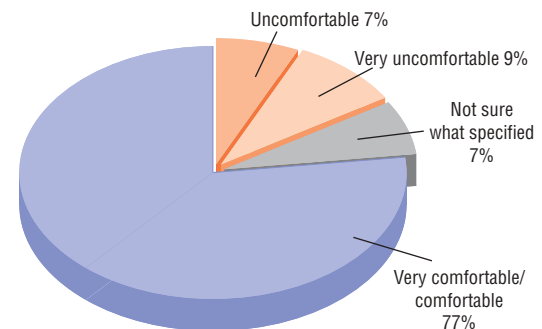


TABLE 14: FIRMS WITH NO OCCUPATIONAL PENSION SCHEMES: ARE YOU AWARE OF THE GOVERNMENT'S NEW STAKEHOLDER PENSION ARRANGEMENTS:

Yes	90%
Vaguely aware	8%
No	2%

If 'yes', are you generally comfortable with what the Government expects of your business in terms of collecting and passing on employee contributions?

Very comfortable	26%
Comfortable	51%
Uncomfortable	7%
Very uncomfortable	9%
Not sure what is expected	7%

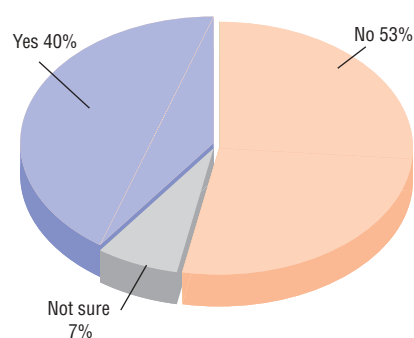
If 'uncomfortable', why?

Administrative costs / complexity	86%
Concerned about responsibilities if performance of scheme is poor	62%
Concerned about offering workplace access to Stakeholder providers	31%

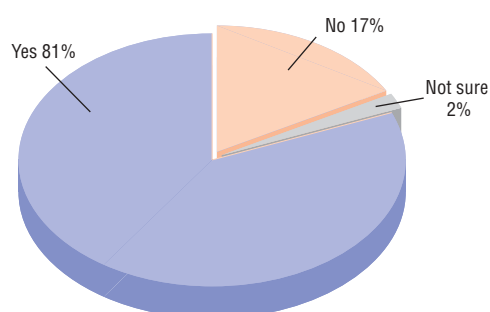
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ARE FIRMS REQUIRED TO OFFER ACCESS TO A STAKEHOLDER SCHEME?



Firms with occupational scheme

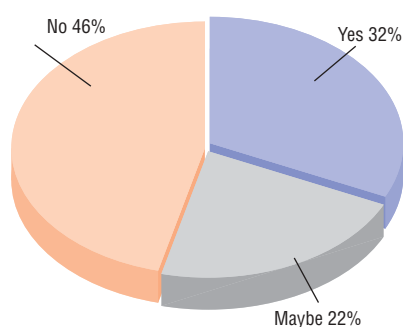


Firms with no occupational scheme

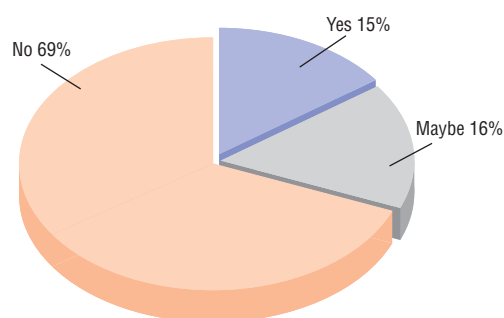
TABLE 15: ALL FIRMS: FIRMS THAT SAY THEY ARE REQUIRED TO OFFER ACCESS TO A STAKEHOLDER SCHEME FOR SOME EMPLOYEES

	Firms with occupational schemes	Firms with no occupational schemes
Yes	40%	81%
No	53%	17%
Not sure	7%	2%
No idea	-	-

WILL YOU MAKE AN EMPLOYER'S CONTRIBUTION INTO ANY STAKEHOLDER SCHEME YOU SET UP?



Firms with occupational scheme



Firms with no occupational scheme

TABLE 16: ALL FIRMS: FIRMS THAT WILL MAKE AN EMPLOYER CONTRIBUTION INTO ANY STAKEHOLDER SCHEME SET UP

	Firms with occupational schemes	Firms with no occupational schemes
Yes	32%	15%
Maybe	22%	16%
No	46%	69%

If 'yes' or 'maybe', median percentage of individual's earnings that might be considered as an employer's contribution -

Firms with occupational schemes	5%
Firms with no occupational scheme	4%

“Many stakeholder pensions will be very slow in their fund build up and may offer only very modest pensions at typical employee-only contribution rates.”

Where firms are prepared to make a contribution, the median contribution level is 4% for those presently offering no occupational scheme and 5% where some occupational provision is already in place. Whilst it is encouraging to see a reasonable number of firms prepared to make an employer's contribution to build better pensions in payment in years to come, the high number not prepared to do so – particularly where no occupational scheme is offered at present – will mean many Stakeholder pensions will be very slow in their fund build up and may offer only very modest pensions at typical employee-only contribution rates (see Appendix).

What if compulsion arrives?

It seems unlikely the Government will be happy to see Stakeholders fail. A low take up over a reasonable period of time – say 2 years – may cause them to consider compulsory levels of contributions, in all likelihood from employers. This may be judged to be the only way to increase levels of contributions for many employees outside of traditional occupational arrangements, so the pensions delivered are meaningful in raising the general level of pensioner incomes in years to come.

However, our survey findings were that if Stakeholder pensions do not ‘take off’ and employers are required to make an employer's contribution, over a half of firms with no scheme say that cost reductions will be needed elsewhere to finance even the smallest employer contribution.

Firms that already offer occupational pensions seem more ‘geared up’ to extending contributions to a wider grouping. A majority - 71% - of firms with occupational schemes say they could afford employer contributions of 3% of earnings or more. Close to half this grouping said they could afford contributions of over 5%. On the other hand, only 6% of firms with no occupational scheme said they could afford contributions at this level (see Table 17).

IF STAKEHOLDER PENSIONS DO NOT ‘TAKE OFF’ WHAT MAXIMUM EMPLOYER’S CONTRIBUTION COULD YOU AFFORD WITHOUT COST REDUCTIONS ELSEWHERE?

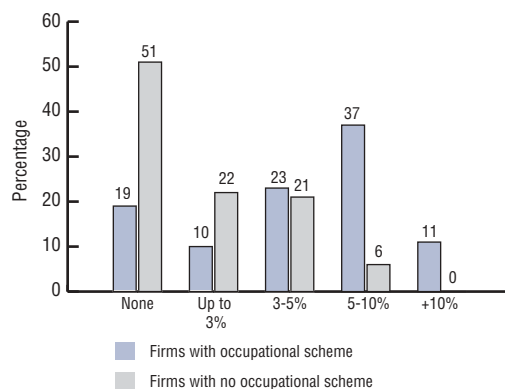


TABLE 17: ALL FIRMS: IF STAKEHOLDER PENSIONS DO NOT ‘TAKE OFF’, WHAT LEVELS OF MAXIMUM COMPULSORY EMPLOYER’S CONTRIBUTIONS COULD BE AFFORDED BEFORE HAVING TO MAKE COST REDUCTIONS ELSEWHERE?

	Firms with occupational schemes	Firms with no occupational schemes
None	19%	51%
Up to 3% of earnings	10%	22%
3 - 5%	23%	21%
5 - 10%	37%	6%
More than 10%	11%	-

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Where's the money for employee / individual contributions into Stakeholders?

If Stakeholders are to rely on individual employee contributions, the 1999-2000 Family Expenditure Survey shows that unless there is a major change in the pattern of how individuals spend their income, there is (on average) no apparent room for regular individual savings (say £20 per month) into Stakeholder pensions for those on household incomes below £29,500 per annum (see Table 18).

*"For those on lower incomes there is
- on average - no apparent room for
regular individual savings into
Stakeholder pensions"*

TABLE 18: IS THERE ROOM FOR HIGHER PENSION CONTRIBUTIONS BY INDIVIDUALS?

Household Incomes (per week)	0- £97	£97 - £148	£148 - £206	£206 - £281	£281 - £371	£371 - £464	£464 - £570	£570 - £719	£719 - £942	+ £942	All
Average Expenditure by items (£):											
Housing (Net)	19.80	23.80	29.60	42.10	50.90	57.90	66.00	72.50	86.70	120.8	57.00
Fuel & Power	7.80	9.80	9.80	10.30	10.80	11.40	12.10	12.30	13.40	15.90	11.30
Food	25.20	31.80	38.10	46.20	52.80	62.30	68.60	78.10	87.00	106.0	59.60
Alcohol	4.70	5.00	6.00	10.40	13.50	17.10	18.70	20.90	26.00	30.60	15.30
Tobacco	3.80	4.60	5.50	6.10	6.40	7.70	6.90	6.90	7.00	5.10	6.00
Clothing	5.40	7.60	9.80	12.70	16.20	21.40	25.10	30.80	32.60	47.90	21.00
Household goods	11.60	12.40	16.20	25.00	24.60	29.40	34.20	43.20	43.30	67.30	30.70
Household servs	7.80	9.20	10.40	11.90	15.60	16.90	21.60	23.00	27.80	44.90	18.90
Personal	5.10	6.10	7.00	9.20	13.00	14.10	14.30	17.20	22.30	30.40	13.90
Motoring	9.40	12.90	16.40	29.50	39.00	53.60	65.90	73.10	102.1	123.6	52.60
Fares / Travel	2.70	3.00	3.90	4.80	6.30	9.90	8.00	14.50	14.70	23.90	9.20
Leisure goods	4.80	6.30	7.90	11.20	16.40	19.10	24.20	28.00	30.80	36.70	18.50
Leisure servs	11.50	13.70	17.10	24.90	33.30	39.30	44.80	59.50	68.70	126.7	43.90
Misc	0.20	0.40	0.40	0.60	1.20	1.60	2.50	1.80	3.00	2.60	1.40
Life + Pensions	1.50	2.20	3.50	6.00	14.00	18.00	24.70	31.40	39.60	79.90	22.10
Income Tax	1.10	1.90	5.10	14.80	32.70	43.70	64.30	85.70	121.4	283.8	65.50
NIC	0.30	0.30	1.00	4.60	10.20	16.70	23.40	30.90	40.20	49.00	17.70
Savings	0.60	0.30	5.80	3.90	2.30	4.20	13.50	9.30	16.50	64.30	12.10
Other	5.00	4.00	5.30	10.80	20.70	16.80	27.80	34.40	38.60	83.50	24.80
TOTAL SPEND	128.3	155.3	198.8	285.0	379.9	461.1	566.6	673.5	821.7	1343	501.5
ROOM FOR HIGHER PENSION CONTRIBUTIONS?	NO	NO	NO	NO	NO	NO	NO	YES	YES	YES	

Source: 1999-2000 Family Expenditure Survey

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Levels of consumer indebtedness as measured by credit card debts alone – currently running at in excess of £6 billion – hardly suggest a large proportion of the population has available income to devote to additional pension savings. The reduction in the savings ratio, and tax incentives on shorter-term savings products such as ISAs (and a

new 'Savings Gateway' for those on lower incomes promised by the Government) suggest significant extra pension saving is unlikely for most people.

Already, Stakeholders seem to be attracting greater interest from higher income groups, where they offer tax advantages in terms of spouse's and children's pensions.

HAVE FIRMS CONSIDERED IMPLICATIONS OF STAKEHOLDERS ON EXISTING COMPANY SCHEME OR GPPs?

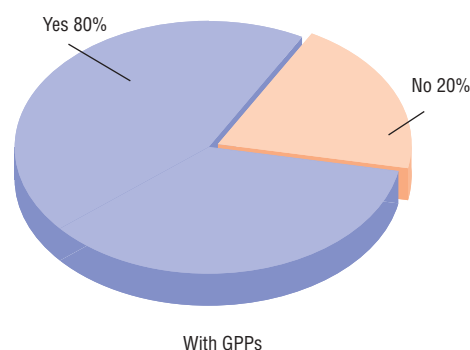
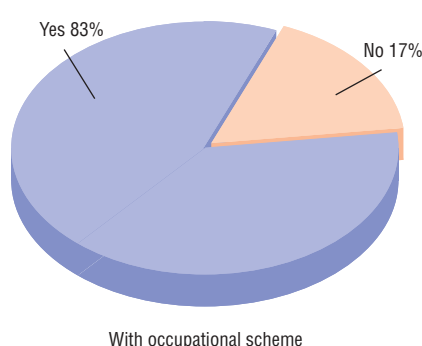


TABLE 19: ALL FIRMS: HAVE FIRMS CONSIDERED THE IMPLICATIONS OF STAKEHOLDER PENSIONS ON EXISTING COMPANY PENSION ARRANGEMENTS OR GPPs?

	With occupational schemes	With GPPs
Yes	83%	80%
No	17%	20%

If 'yes', have firms decided to extend existing arrangements to all Stakeholder eligible employees?

	With occupational schemes	With GPPs
Yes	53%	58%
No	35%	35%
Will consider	12%	4%
GPP provider will not convert to Stakeholder compliant	n/a	3%

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Any Government will have difficulties in persuading the public to change spending patterns on items like drink, tobacco and leisure, without being dubbed over-intrusive. It might, however, over a phased period increase pension savings amongst lower income groups if this was matched by tax and NI reductions over the same period. For this to work, the tax / NI reductions given would have to move into private pension savings on an ear-marked basis, with no leakage into current consumption.

Stakeholders and existing arrangements

Over half of the firms running an occupational pension scheme or GPP say that they have decided to extend their existing arrangement to all Stakeholder eligible employees. However, 35% of both groups have decided not to do this (see Table 19). Whilst we did not find any evidence of a wholesale and willful policy amongst firms to ignore the Stakeholder legislation, some 17% to 20% of respondents seemed unwilling to consider the implication of Stakeholders ahead of 8 October 2001, by which time all Stakeholder eligible employees should have been offered access to a scheme.

What is clear is that where Stakeholders have been launched, very few firms are opting for a trustee-based Stakeholder scheme.

Stakeholders will impact on existing occupational arrangements

Whilst a majority of firms have already or will modify existing arrangements to gain exemptions from Stakeholder requirements, some 13% of firms with occupational schemes – a not insignificant number - say they will gradually wind down existing arrangements for some or all staff, replacing these with a Stakeholder scheme.

A further 20% will restrict entry to their occupational scheme, excluding either new employees or extra categories of employees and offer Stakeholders instead (see Table 20).

The concern must be that where these changes take place, levels of employer contributions could fall below those presently made, reducing pension outcomes for very many employees.

TABLE 20: FIRMS WITH OCCUPATIONAL PENSION SCHEMES: HAS THE INTRODUCTION OF STAKEHOLDER PENSIONS CAUSED FIRMS TO RECONSIDER THE OCCUPATIONAL SCHEMES PRESENTLY OFFERED?

We have or will modify existing scheme(s) to gain exemptions from Stakeholder requirements	56%
We will gradually wind down existing occupational scheme for some / all staff and replace with Stakeholder scheme	13%
We will restrict offering existing occupational scheme to present categories of employees and offer Stakeholder to other employee categories	11%
We will restrict offering existing occupational scheme to present employees and offer Stakeholder to new employees	9%
Other	11%

Pension contributions and scheme costs

Provided pension contributions into final salary and money purchase arrangements are broadly the same, there should be no great difference in the average pension outcome. However, the surveys of smaller firms we conducted in 1996 and 1998 showed a significant and growing 'contribution gap' between final salary and money purchase schemes in the sector.

Unfortunately, our latest survey confirms the results of our earlier studies, and those conducted by other organisations, that money purchase arrangements generally receive a combined employer and employee contribution that is significantly smaller than that which goes into final salary schemes. The reasons are relatively clear. Whereas an employer can set a contribution level into a money purchase scheme that suits his budget (and presumably any retention / recruitment requirement), contributions into final salary schemes are based upon the promise (or expectation) to pay pensions geared to percentages of final salaries for all members as

their retirements fall due. This requires a long-term approach where extra funds may need to be put into the scheme in order to meet changing circumstances, such as greater longevity, lower investment returns and increased benefit promises (some stipulated by Government).

Aside from increased regulatory costs (which have been significant over the last 20 years), increased taxation (via Advance Corporation Tax changes), greater longevity, scheme maturity (ie. a growing percentage of longer serving members) and lower investment returns are making these schemes more costly to run. The abandonment of the minimum funding requirement may ease some pressures, although, by some interpretations, the Government's proposed replacement could be more onerous. In any event, this will not change the underlying economics of funding promises far into the future. Reforms to accounting standards that require a 'more transparent' statement in accounts about pension scheme liabilities are likely to place further doubts in directors' and shareholders' minds about the desirability of running a final salary scheme.

TABLE 21: FIRMS WITH OCCUPATIONAL PENSION SCHEMES: OVER THE LAST 5 YEARS, HAVE TOTAL PENSION SCHEME COSTS (ADMINISTRATION AND CONTRIBUTIONS) GROWN AT A FASTER RATE THAN YOUR OTHER BUSINESS OVERHEADS ?

	Firms with final salary scheme	Firms with occupational money purchase scheme
Yes	63%	29%
No	16%	32%
Same Rate	21%	39%

If 'yes', what would you attribute this to:

Compliance costs	35%
External factors (eg. low inflation / low real investment returns, longevity, ACT change)	26%
Change in coverage of employees	17%
More defensive investment strategy due to MFR	12%
Change in pensions offered	6%
More defensive investment strategy due to scheme maturity	3%
Other	1%

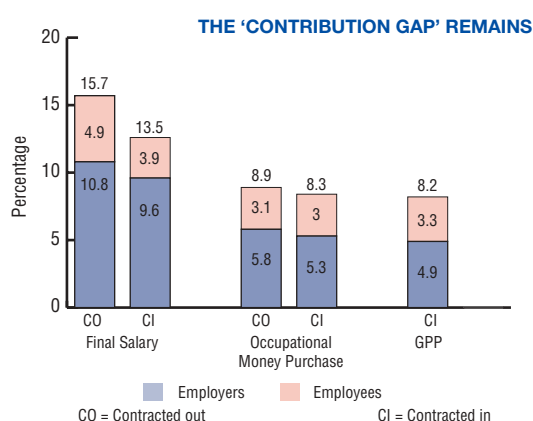
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Our survey found that over the last 5 years, 63% of firms with final salary schemes say their pension scheme costs (administration and contributions) have grown at a faster rate than other business overheads. Only 29% of firms with money purchase schemes say this. Political actions such as increased compliance costs (the most significant factor) and the Advance Corporation Tax change in 1997, external factors such as low inflation / low real investment returns and longevity are seen as the chief culprits (see Table 21).

This year's survey found combined employer and employee contributions into final salary schemes, as a percentage of earnings, are now between 5 - 7% higher than into either occupational money purchase or Group Personal Pensions. Firms expect this contribution 'gap' to widen into the

longer-term to over 7%, even though there are expectations that contributions into money purchase arrangements will rise, but only modestly (see Tables 22 and 23). Members of contracted-in arrangements will receive a SERPS pension in addition to their occupational or personal pension.



“Combined employer and employee contributions into final salary schemes, as a percentage of earnings, are now between 5-7% higher than into money purchase arrangements”

TABLE 22: FIRMS WITH OCCUPATIONAL PENSION SCHEMES: AVERAGE LEVELS OF COMPANY AND EMPLOYEE CONTRIBUTIONS BY TYPES OF SCHEME AND COMPARISON WITH CONTRIBUTIONS INTO GROUP PERSONAL PENSION PLANS RUN BY FIRMS WITHOUT OCCUPATIONAL ARRANGEMENTS

Contributions expressed as a percentage of total earnings						
FINAL SALARY						
	Last Year		Current Year		Long-term when any surplus / deficit gone	
	Con-out	Con-in	Con-out	Con-in	Con-out	Con-in
Company contribution	9.8%	9.4%	10.8%	9.6%	12.4%	11.2%
Employee contribution	4.8%	3.9%	4.9%	3.9%	4.9%	3.9%
Total contribution	14.6%	13.3%	15.7%	13.5%	17.3%	15.1%
OCCUPATIONAL MONEY PURCHASE						
	Last Year		Current Year		Expected Long-term	
	Con-out	Con-in	Con-out	Con-in	Con-out	Con-in
Company contribution	5.8%	5.3%	5.8%	5.3%	7.1%	5.5%
Employee contribution	3.0%	3.0%	3.1%	3.0%	3.1%	3.0%
Total contribution	8.8%	8.3%	8.9%	8.3%	10.2%	8.5%
GROUP PERSONAL PENSION PLANS contracted-in						
	Last Year		Current Year		Expected Long-term	
Company contribution	4.7%		4.9%		5.3%	
Employee contribution	3.3%		3.3%		3.3%	
Total contribution	8%		8.2%		8.6%	

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TABLE 23: FIRMS WITH PENSION SCHEMES: CURRENT RANGE OF EMPLOYER CONTRIBUTION RATES

CONTRIBUTION AS PERCENTAGE OF EARNINGS	Percentage		
	Final Salary	Occupational Money Purchase	Group Personal Pension Plans
0	3%	0%	12%
Up to 3%	4%	4%	14%
Over 3 - 6%	16%	52%	48%
Over 6 - 9%	32%	32%	21%
Over 9 - 12%	19%	7%	5%
Over 12 - 15%	11%	3%	-
Over 15 - 18%	8%	2%	-
Over 18%	7%	-	-

"An increasing percentage of employees are being exposed to investment risk and the likelihood of materially lower pensions than in years gone by."

Impact of 'contribution gap'

In the appendix, we detail just how significant this 'contribution gap' is in terms of pension outcomes across a range of incomes. The examples show that those who have upwards of 20 years membership of a good final salary scheme can look to retiring on typically 50%-80% of final salary including their state pension. However, the pension, inclusive of state pensions, that the money purchase contributions reported in this survey are likely to deliver is 30-60% of final earnings, subject to a consistent record of contributions of upwards of 20 years. The contributions are not equal in each case, with the resulting pensions reflecting differences in typical contributions paid in, rather than differences in the effectiveness of the various pension vehicles featured. Unsurprisingly, the shorter the term of private pension saving and the lower the income, the more importance is placed on a full record of contracted-in National Insurance payments to generate a state second pension over and above the basic. But given the steady 'watering down' of state pensions over the years, what confidence can one have that the expected state pension will retain any significant value?

What needs to be under-scored is that the rapid move away from final salary schemes evidenced elsewhere in the survey, means an increasing percentage of employees - both in smaller firms and increasingly larger ones - are being exposed to investment risk and the possibility of materially lower pensions than in years gone by.

For those members of money purchase arrangements, of whatever type, the impact of tax on pension funds, greater longevity and lower investment returns is also marked, leading to the likelihood of both lower funds and lower pension payments per pound of pension fund saved. Whilst increases in Government debt may lead to higher annuity returns from time to time, this may also be accompanied by higher rates of inflation that will offset the higher returns. The question of annuity rates is addressed in our forthcoming discussion paper in the *Placard* series.

State (and thereby taxpayer) support of pensioners is likely to continue to rise. Despite this, the growing legions of pensioners in the future seem set to experience low relative incomes for long periods of their lives, unless – by some means – the general

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levels of pension contributions can be raised (or the public draw on pension savings generally at a later age).

To achieve this, there may need to be some simple age-related minimum savings guidelines set, which are widely publicised, and which are periodically revised reflecting economic and demographic changes. As we indicated earlier there also may need to be a tax / compulsory savings trade-off to make higher pension savings a reality. There is also likely to be growing pressure to raise retirement ages, although this may be frustrated by firms' reluctance to retain the services of older employees.

Pensions are not the only form of investing for retirement income. Indeed, the erosion of tax differentials between pensions and other vehicles may well have attracted some investment away from pensions. However, non-pension investments normally can be accessed - and therefore spent - before retirement.

Change: past and future

The survey found that there have been marked pension changes in the smaller firms sector in the last 5 years, some of the most significant being:

- 24% of firms offering occupational pensions have set up a money purchase plan, with 12% moving some or all staff into such a scheme.
- 18% have placed one or more schemes into winding-up.
- 11% have moved to a more flexible benefits package offering a wider range of benefit options (see Table 24).

Over the next 10 years, in ranked order, firms in the sector say that:

- the role of state pensions will decline.
- the proportion of occupational schemes that are money purchase will increase significantly.
- the requirement to purchase compulsory annuities (by age 75) from retirement savings will be eased or abolished.
- compulsory employer contributions will be introduced.
- occupational pensions will decline in favour of Stakeholder schemes (see Table 25).

TABLE 24: FIRMS WITH OCCUPATIONAL PENSION SCHEMES: OVER THE LAST FIVE YEARS HAS YOUR FIRM DONE ANY OF THE FOLLOWING?

set up a money purchase scheme	24%
placed one or more schemes into winding-up	18%
moved towards more flexible benefits package offering wider range of benefit options	11%
moved more employees into money purchase schemes	9%
reduced percentage of employees covered by pension schemes	8%
out-sourced scheme administration	4%
moved all employees into money purchase schemes	3%
set up a final salary scheme	1%

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TABLE 25: ALL FIRMS: LOOKING FORWARD OVER THE NEXT TEN YEARS, WHAT IS THE DEGREE OF FIRMS' SUPPORT FOR THE FOLLOWING STATEMENTS?

AVERAGE RESPONSE 10 = agree 1 = disagree	With occupational schemes (ranked position in brackets)	No occupational scheme or GPP
The role of State pensions will decline	8.0 (1st)	8.1 (1st)
The proportion of occupational schemes that are money purchase will increase significantly	7.9 (2nd)	7.1 (2nd)
The requirements to purchase compulsory annuities (by age 75) from retirement savings will be eased or abolished	7.4 (3rd)	6.5 (3rd)
Compulsory employer pension contributions WILL be introduced	6.5 (4th)	6.0 (4th)
Occupational pensions will decline in favour of Stakeholder schemes	5.5 (5th)	5.7 (5th)
Occupational pension schemes will grow in number in recognition of their value	5.3 (6th)	5.0 (7th)
Occupational arrangements will decline in favour of more flexible benefits and other savings vehicles	5.2 (7th)	5.7 (5th)
Compulsory employer pension contributions SHOULD be introduced	5.2 (7th)	3.9 (8th)

Final thoughts

For much of the period since the 1950s, the desire not to over-burden the working population as the retired population has grown has limited the ability of the State to offer a basic state pension and earnings related addition that has kept pace with 'at work' earnings or pensioner aspirations. The problem was eased over the period, however, by the huge growth in the contribution to many pensioners' incomes coming from occupational pension arrangements. The benefits of that expansion in occupational provision remain with us, with over eight and a half million people currently receiving an occupational pension.

What this survey tells us is that this picture is changing and, in certain ways, quite rapidly. Levels of occupational scheme coverage have fallen away quite rapidly since 1990 and are at their lowest levels since the late 1950s.

Contribution levels into money purchase occupational arrangements (and personal pensions, which usually attract no employer contribution) are generally well below those required to fund a comfortable retirement and – due to demographic and economic changes – should be increasing, when in many cases they are actually falling away. Stakeholders, without an employer contribution, are likely to have only a limited impact as each individual's regular contribution will generally be too low.

Without urgent and vigorous Government action, occupational pensions are truly approaching the end of an era.

The next phase of Government led pension reform will need to address the issues behind this head on, rather than by dancing around the edges.

"Contribution levels into money purchase arrangements are generally well below those required to fund a comfortable retirement"

Appendix:

What might the average pension contributions reported in this survey produce as a pension?

Over the next few pages, we have summarised what the average contributions paid by employers and employees may mean for someone retiring at age 65 (and a woman at age 60) who start their contributions today at age 25, 35 or 45 years. The figures are based on male average earnings (currently £24,300pa) and female (£17,600pa), with - additionally - an example based on a man presently earning £40,000 pa.

The contributions paid in these examples are not the same in each case. The resulting pensions reflect differences in typical contributions paid-in, rather than differences in the effectiveness of the different pension vehicles featured.

The assumptions made are:

- The individuals started paying NI from age 18 - contracted-in up to scheme joining age.
- Investment growth 4% pa real over RPI before retirement. Annuity rate based on investment return of 2.5% pa real over pension increases.
- Assumed 1.5% pa salary increases over RPI.

- On retirement an inflation linked annuity is purchased with a 50% spouse's pension.
- The final salary scheme is a 60ths scheme with an inflation linked increase in payment.
- Money purchase and Stakeholder charges of 1% pa of the fund.
- Under final salary schemes the employer pays the charges.
- Pension quoted is expressed in current salary terms.

We have also included an allowance for state basic and, where applicable, state additional earnings-related pension figures (SERPS and S2P) assuming a full contribution record. The assumptions include the introduction of S2P from 2002 (but do not take account of the forward commitment to make it a flat rate pension from some 'unknown date').

Clearly, these figures can only be approximations made against the assumptions detailed above and cannot take account of individual circumstances.

The examples given are for guidance only and do not constitute advice. Individuals should seek independent advice before making important pension decisions.

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Note: contributions paid in these examples are not the same. The resulting pensions reflect differences in typical contributions rather than differences in the effectiveness of the different pension vehicles featured.

EXAMPLE 1A

MAN JOINING PENSION SCHEME AT AGE 25 WITH SALARY OF £24,300: WHAT WILL HIS PENSION BE AT AGE 65?

Pension	Final Salary Scheme 5% Employee Contribution Contracted out		Money Purchase Scheme 6% Employer Contribution 3% Employee contribution Contracted in		Stakeholder Scheme 3% Employee Contribution Contracted in	
Private	£16,200		£5,579		£1,860	
State		£4,525		£7,881		£7,881
Total Pension	£20,725		£13,460		£9,741	
Percentage of Final Salary	85%		55%		40%	

EXAMPLE 1B

MAN JOINING PENSION SCHEME AT AGE 35 WITH SALARY OF £24,300: WHAT WILL HIS PENSION BE AT AGE 65?

Pension	Final Salary Scheme 5% Employee Contribution Contracted out		Money Purchase Scheme 6% Employer Contribution 3% Employee contribution Contracted in		Stakeholder Scheme 3% Employee Contribution Contracted in	
Private	£12,150		£3,879		£1,293	
State		£5,364		£7,881		£7,881
Total Pension	£17,514		£11,760		£9,174	
Percentage of Final Salary	72%		48%		38%	

EXAMPLE 1C

MAN JOINING PENSION SCHEME AT AGE 45 WITH SALARY OF £24,300: WHAT WILL HIS PENSION BE AT AGE 65?

Pension	Final Salary Scheme 5% Employee Contribution Contracted out		Money Purchase Scheme 6% Employer Contribution 3% Employee contribution Contracted in		Stakeholder Scheme 3% Employee Contribution Contracted in	
Private	£8,100		£2,390		£797	
State		£6,203		£7,881		£7,881
Total Pension	£14,303		£10,271		£8,678	
Percentage of Final Salary	59%		42%		36%	

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Note: contributions paid in these examples are not the same. The resulting pensions reflect differences in typical contributions rather than differences in the effectiveness of the different pension vehicles featured.

EXAMPLE 2A

MAN JOINING PENSION SCHEME AT AGE 25 WITH SALARY OF £40,000: WHAT WILL HIS PENSION BE AT AGE 65?

Pension	Final Salary Scheme 5% Employee Contribution Contracted out		Money Purchase Scheme 6% Employer Contribution 3% Employee contribution Contracted in		Stakeholder Scheme 3% Employee Contribution Contracted in	
Private	£26,667		£9,183		£3,061	
State		£4,731		£9,001		£9,001
Total Pension	£31,397		£18,184		£12,062	
Percentage of Final Salary	78%		45%		30%	

EXAMPLE 2B

MAN JOINING PENSION SCHEME AT AGE 35 WITH SALARY OF £40,000: WHAT WILL HIS PENSION BE AT AGE 65?

Pension	Final Salary Scheme 5% Employee Contribution Contracted out		Money Purchase Scheme 6% Employer Contribution 3% Employee contribution Contracted in		Stakeholder Scheme 3% Employee Contribution Contracted in	
Private	£20,000		£6,385		£2,128	
State		£5,798		£9,001		£9,001
Total Pension	£25,798		£15,386		£11,129	
Percentage of Final Salary	65%		38%		28%	

EXAMPLE 2C

MAN JOINING PENSION SCHEME AT AGE 45 WITH SALARY OF £40,000: WHAT WILL HIS PENSION BE AT AGE 65?

Pension	Final Salary Scheme 5% Employee Contribution Contracted out		Money Purchase Scheme 6% Employer Contribution 3% Employee contribution Contracted in		Stakeholder Scheme 3% Employee Contribution Contracted in	
Private	£13,333		£3,934		£1,311	
State		£6,866		£9,001		£9,001
Total Pension	£20,199		£12,935		£10,313	
Percentage of Final Salary	51%		32%		26%	

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Note: contributions paid in these examples are not the same. The resulting pensions reflect differences in typical contributions rather than differences in the effectiveness of the different pension vehicles featured.

EXAMPLE 3A

WOMAN JOINING PENSION SCHEME AT AGE 25 WITH SALARY OF £17,600: WHAT WILL HER PENSION BE AT AGE 60?

Pension	Final Salary Scheme 5% Employee Contribution Contracted out		Money Purchase Scheme 6% Employer Contribution 3% Employee contribution Contracted in		Stakeholder Scheme 3% Employee Contribution Contracted in	
Private	£10,267		£2,966		£989	
State		£4,337		£7,053		£7,053
Total Pension	£14,604		£10,019		£8,042	
Percentage of Final Salary	83%		57%		46%	

EXAMPLE 3B

WOMAN JOINING PENSION SCHEME AT AGE 35 WITH SALARY OF £17,600: WHAT WILL HER PENSION BE AT AGE 60?

Pension	Final Salary Scheme 5% Employee Contribution Contracted out		Money Purchase Scheme 6% Employer Contribution 3% Employee contribution Contracted in		Stakeholder Scheme 3% Employee Contribution Contracted in	
Private	£7,333		£1,957		£652	
State		£4,967		£6,907		£6,907
Total Pension	£12,300		£8,864		£7,559	
Percentage of Final Salary	70%		50%		43%	

EXAMPLE 3C

WOMAN JOINING PENSION SCHEME AT AGE 45 WITH SALARY OF £17,600: WHAT WILL HER PENSION BE AT AGE 60?

Pension	Final Salary Scheme 5% Employee Contribution Contracted out		Money Purchase Scheme 6% Employer Contribution 3% Employee contribution Contracted in		Stakeholder Scheme 3% Employee Contribution Contracted in	
Private	£4,400		£1,073		£358	
State		£5,596		£6,761		£6,761
Total Pension	£9,996		£7,834		£7,119	
Percentage of Final Salary	57%		45%		40%	

"The 'contribution gap' means a typical money purchase scheme may deliver a pension some 20% - 30% (or more) lower than that enjoyed by a 'final salary' pensioner."

CONCLUSIONS:

The examples underscore the immense pension advantages for members (aside from the costs falling on employers) of final salary arrangements, even for relatively late entrants given the much lower average contributions paid into money purchase schemes reported by this survey.

The 'contribution gap' means a 'typical' money purchase scheme may deliver a pension some 20% - 30% (or more) lower than that enjoyed by a 'final salary' pensioner. Investment risk, greater longevity and variable annuity returns also present

a significant added concern for those reliant on money purchase.

Whilst the reform of SERPS and the eventual introduction of a flat rate S2P will tip the balance towards private pensions as incomes rise, innovations such as the pensioners' minimum income guarantee, indexed to earnings, present a further discouragement to private pension saving at lower incomes. This will frustrate the Government's stated objective of adjusting the contribution of state and private pensions from a 60:40 balance to a 40:60 one.



GLOSSARY OF TERMS

ACT CREDIT

Up to July 1997, all pension funds were able to reclaim the Advance Corporation Tax (ACT) already paid on dividends deriving from UK equities. This was called the ACT credit. Abolition has been estimated to cost pension funds, and in many cases their members, around £5 billion per year.

ANNUITY

A series of payments, which may be subject to increases, made at stated intervals until a particular event occurs. This event is most commonly the end of a specified period or the death of the person receiving the annuity.

CONTRACT-IN

To remain in SERPS (see SERPS) or S2P (see S2P) .

CONTRACT-OUT

To opt out of SERPS (see SERPS) or S2P (see S2P) through an arrangement whereby, in return for paying a reduced rate of National Insurance contribution and providing a number of further conditions are met by the pension provider, an individual forgoes some of their right to a SERPS or S2P on retirement.

CONTRIBUTION HOLIDAY

A period during which employers' and/or members' pension contributions are temporarily suspended, normally when a final salary scheme is in surplus.

FINAL SALARY SCHEME

A final salary (or "defined benefit") scheme typically guarantees employees a fraction (commonly 60ths or 80ths) of their salary at retirement for each year of scheme membership. Company contributions to fund this promise may vary from time to time, but any employee contributions would typically be a fixed percentage of salary.

FLEX OR FLEXIBLE BENEFITS

The concept of 'Flex', also known as 'cafeteria benefits' and 'flexible remuneration packages' refers to a remuneration system which enables employees to choose from a range of benefits within an overall cost limit.

GROUP PERSONAL PENSION (GPP) PLAN

An arrangement made for the employees of a particular employer to participate in a personal pension scheme on a grouped basis. Strictly speaking, this is not a company scheme; merely a collecting arrangement. GPPs are money purchase arrangements (see next column).

HYBRID OR MIXED SCHEMES

These are occupational pension schemes that have usually been the result of the modification of one type of scheme into a blend incorporating features of, for example, both a final salary and a money purchase scheme.

INDUSTRY-WIDE SCHEME

A centralised scheme for non associated employers in a particular industry of profession.

INSURED SCHEME

A pension scheme where the sole long term investment medium is an insurance policy (other than a managed fund policy).

MONEY PURCHASE SCHEME

A money purchase (or “defined contribution”) scheme is one where usually both the company and the members pay a stated level of contributions, usually expressed as a percentage of salary. The contributions are accumulated and invested, with the amounts invested for each individual separately identifiable. The retirement benefit depends on investment returns achieved in practice, and costs or charges deducted as well as annuity rates on retirement. There is no guarantee related to salary or service.

OPRA

The Occupational Pensions Regulatory Authority set up to regulate occupational and stakeholder schemes.

SERPS

The State Earnings Related Pension Scheme (SERPS) is the additional earnings related component of the state pension scheme. It will be replaced by S2P (State Second Pension) from April 2002.

STATE SECOND PENSION (S2P)

Replaces SERPS as the state second pension from 6 April 2002.

STAKEHOLDER PENSIONS

A type of money purchase scheme, introduced from April 2001, which fulfils the regulatory requirements for such a scheme and which is registered with OPRA.

SURPLUS

The excess of the actuarial value of assets in a final salary pension scheme over the actuarial value of liabilities. An actuarial surplus is based on estimates and may not materialise in practice.

WINDING-UP

The process of terminating a pension scheme, usually by applying the assets to the purchase of immediate and deferred annuities for the beneficiaries, or by transferring the assets and liabilities to another pension scheme, in accordance with the scheme documentation.

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About the Association

The Association of Consulting Actuaries was established 50 years ago and draws its membership from individual consulting actuaries working in over 80 consulting firms.

Members of the Association are all qualified actuaries – either Fellows of the Institute of Actuaries or Fellows of the Faculty of Actuaries in Scotland – and all actuarial advice given by members of the Association is subject to the code of professional conduct of the Faculty and Institute of Actuaries. Relationships with clients are direct and confidential, and all advice given is independent and impartial.

Top Pension Advisers

The major part of our members' work is as advisers to UK pension funds with assets in excess of £700 billion. The vast majority of the country's largest pension schemes are advised by ACA members and they, amongst thousands of other pension funds, companies and organisations take advantage of a wide and varied range of services offered by our members.

Scheme Design and Administration

Members advise, for example, on the design and implementation of new pension schemes as well as on amendments to the benefits available from existing schemes. This work includes advice on contribution levels and funding, drafting explanatory literature, explaining the scheme to its members and carrying out actuarial valuations. Advice on, and where required the provision of, computerised systems for pensions administration is also given. This covers record keeping, benefit calculations, annual benefit statements, the payment of pensions and the maintenance of scheme accounts. While the administration of most schemes is usually carried out by the individual employer, our members will, if required, act as administrators, maintaining records, paying benefits and so on. Members also analyse the employer cost and employee value of all elements in a total remuneration package, as well as designing flexible benefits and healthcare arrangements.

Advice on Investment Strategy

On the investment front, members advise on investment objectives and on asset allocation strategies appropriate to these objectives, taking into account the particular scheme's liabilities. They will analyse and monitor the investment performance of the pension fund and advise on the selection of investment managers when required.

Mergers, Acquisitions and Sales

A particularly important area in which our members are active is advice in connection with mergers and acquisitions, and the subsequent rationalisation of the pension arrangements already created by the companies concerned. It is not always appreciated that the sums at stake in negotiations of this kind can be very substantial, compared with the purchase consideration.

Pensions for Controlling Directors

Many directors who control companies can benefit from small self-administered company pension schemes which, if approved by the Inland Revenue, bring considerable tax advantages with them. They are of particular benefit and value to directors of family-owned companies and our members are active in advising on and establishing such schemes.

Personal Financial Planning

Our members – directly or through associated companies appropriately authorised under the Financial Services Act – provide completely independent and impartial personal financial planning advice to individuals considering pensions, life assurance or related investment products.

Advising Insurers

ACA members act as advisers to life assurance companies both in the UK and overseas. Some of these UK companies also have Association members as their Appointed Actuary. As actuarial and statistical skills become increasingly recognised in the field of general insurance, our members are often involved in advising on premium rates, reinsurance limits and reserve levels both for insurance companies and commercial and industrial companies which operate self insurance arrangements or insurance through an offshore subsidiary.

Corporate Finance and Risk

Members also are increasingly active in new areas, advising on – for example – actuarial issues involved with corporate finance and risk.

Legal Matters

Our members also advise clients, normally through legal advisers, on the valuation of life and reversionary interests in settled property as well as, for instance, advising on assessment of damages for future financial loss arising from accidents, injuries or divorce, assessing compensation for loss of office and acting as expert witnesses.

Our Clients First

Increasingly corporate bodies and individuals look for independent advice when examining their pension and other financial arrangements – the sums involved and the consequences of a 'wrong' decision point to the need for assistance of the highest quality. Members of the Association of Consulting Actuaries are available to provide this advice.

The Association of Consulting Actuaries

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