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The unfinished agenda
Growing workplace pensions fit for purpose

First Report of the ACA 2013 Pension trends survey

Survey conducted by the Association of Consulting Actuaries

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Chairman's Introduction
First Report of ACA 2013 Pensions trends survey

Today, only around a quarter of private sector employers offer workplace pension schemes. Amongst the smallest firms this falls to around 15%.

By 2018, we should have a changed picture with over 1 million firms in the country having auto-enrolled employees into a workplace pension scheme of (or bettering) a minimum standard. This survey report together with a second report to be published later this year tracks the early impact of the auto-enrolment revolution on employers and their views on emerging new pension designs branded 'Defined Ambition (DA)' by Steve Webb, the Pensions Minister.

For over a decade it has been evident to me that employers, many discouraged by the mounting cost and risks involved in offering final salary schemes or concerned by the volatile outcomes of traditional money purchase, have been searching for new pension models that are fit for purpose; models that would enable them to cap their costs whilst also meeting their employees' legitimate calls for greater certainty over the pensions that are delivered. However, those very same employers and their advisers have felt constrained by the limitations placed upon them by existing UK pension legislation.

The proposals contained within the Government's paper *Reshaping workplace pensions for future generations*, in my view, address the unfinished agenda and provide a way forward towards both reshaping and reinvigorating workplace pensions. They offer a range of new options that will be attractive to different employers and their employees - all part of a new framework that looks beyond the current regulatory extremes of final salary and money purchase. This survey gives an early indication of the degree to which employers of different sizes agree with the Defined Ambition flight-path.

I would like to thank all those employers who responded to the survey questionnaire for the time this involved.

Andrew Vaughan
Chairman
Association of Consulting Actuaries

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Key findings

The survey was conducted by the Association of Consulting Actuaries (ACA) in the summer of 2013 for online completion and was circulated to UK employers of all sizes, selected on a random basis. Responses were received from 308 employers with over 430 pension schemes. This survey report focuses on general workplace pension trends, including changes driven by auto-enrolment and the Government's ongoing pension reforms.

- **Two-thirds of employers responding to the survey said they would be changing their pension arrangements as a consequence of auto-enrolment**.
- **As a result of auto-enrolment, whilst just over a half of employers expect to enrol all eligible jobholders into either an existing or new defined contribution scheme sponsored by the firm, a fifth expect to enrol employees into NEST or a new multi-employer scheme.**
- **A fifth of employers also expect to restrict previous non joiners and new entrants to a lower-cost scheme sponsored by the firm or a multi-employer scheme or NEST.**
- **Whilst most smaller employers expressed no view on the principal Defined Ambition (DA) ideas that look to retain an element of defined benefit[1], firms employing 500 or more employees said they were supportive of legislation to permit the following designs** :
  - ✓ **Core defined benefit schemes with no requirement to index benefits on an annual basis,**
  - ✓ **An option for a defined benefit scheme where employers could automatically convert leavers' benefits to a defined contribution scheme (and possibly retirees' benefits to an annuity),**
  - ✓ **An ability for employers to adjust scheme pension age in line with changes in State Pension Age or some other objective index.**
- **Six out of ten employers said they thought there would be a significant difference in the number of employees who would consider joining (or staying in) a defined contribution scheme or who would pay higher contributions if the qualifying default fund secured a guaranteed pension income building up year by year.**
- **A clear majority of employers support a fixed-term pension enabling retirees to draw an income from a small pension pot over a few years rather than converting their pot into what might otherwise amount to a small monthly or annual retirement annuity.**
- **Six out of ten employers oppose the Government taking a role in encouraging consolidation of schemes in the pensions market, with smaller firms most strongly opposed to such an initiative.**
- **Over three-quarters of larger employers (with 1,000 or more employees) said they would not offer a multi-employer scheme, whereas over three-quarters of smaller employers (499 or fewer employees) agreed that a decision to opt for a larger multi-employer arrangement was either likely or possible in their circumstances.**

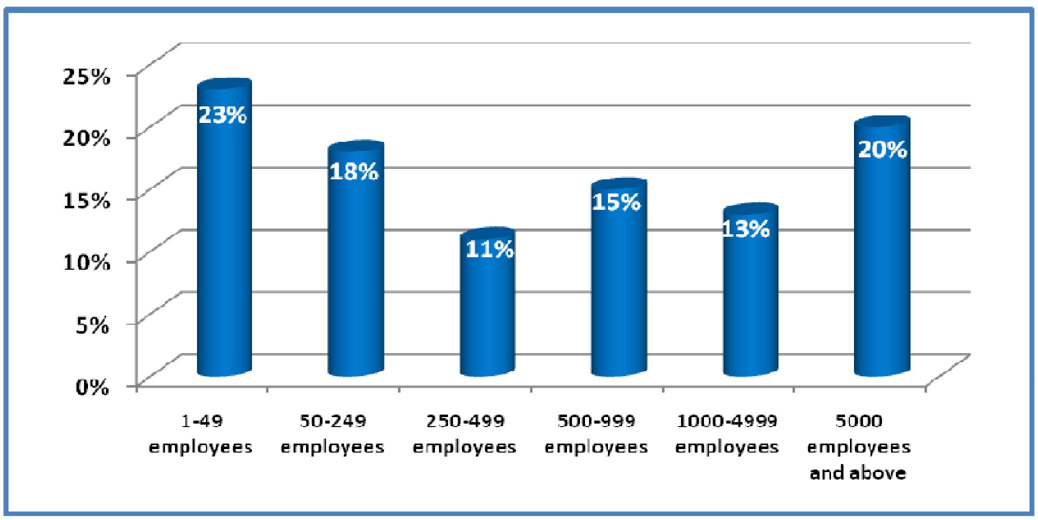
[1] For a summary of the principal DA ideas see DWP paper, *Reshaping workplace pensions for future generations,* published 7 November 2013, Cmnd 8710, pages 6-8 and pages 16-48.

Section 1 – Survey respondents and the changing workplace pensions scene

Our 2013 survey, following a questionnaire broadcast in the summer of this year, received responses from 308 employers with over 430 pension schemes covering every size of business. Four out of ten responses came from smaller firms employing fewer than 250 employees, set against a fifth replying from organisations with 5,000 employees or more (see *Figure 1*). The sample does not represent a 'mirror image' of UK employers broken down by size (if it did, over 95% of the sample would be drawn from firms with fewer than 50 employees[2]), but it provides a good indication of trends across all types of enterprises.

With just 8% of respondents indicating they do not run a pension scheme, the sample does over-represent the proportion of firms presently offering pension arrangements. **At present, some 25% of the UK's firms provide workplace pension schemes while around a further 7% make contributions into employees' personal pensions[3].** However, this is a picture that will change markedly over the next 5 years as the Government's pension auto-enrolment policy[4] impacts on over 1 million medium-sized and smaller employers.

Figure 1: Organisations responding to the survey



(Source: ACA 2013 Pension trends survey, First Report, Table 1, page 15)

The principal types of open pension schemes run by the respondents are defined contribution in structure with 43% offering Group Personal Pensions and over a fifth offering either trust-based or Stakeholder schemes. Whilst four out of ten employers sponsor a final salary defined benefit scheme, nine out of ten of these are closed to new entrants and of these just under four out of ten are also now closed to future accrual (see *Table 2*, page 15).

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2 **Source:** BIS Business Population Estimates 2012.

3 **Source:** DWP Research Report *Employers' Pension Provision Survey 2011.*

4 The Government's auto-enrolment policy requires all firms with one or more employees to auto-enrol eligible jobholders into a workplace pension scheme with certain minimum standards on a staged basis by early 2018.

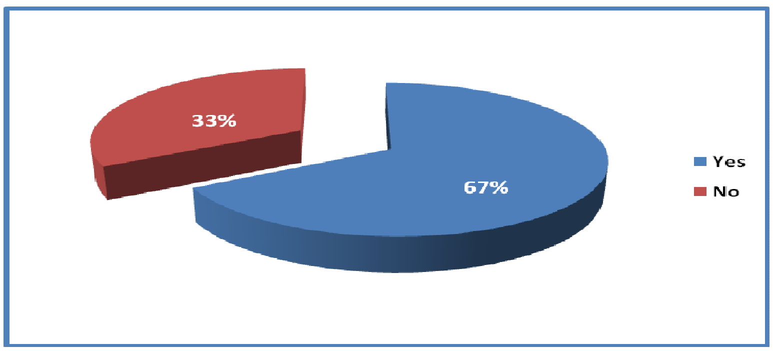
The changing pensions scene

Presently, the auto-enrolment policy is at an early stage of implementation with low employee opt-out rates reported to date. Auto-enrolment of eligible jobholders[5] into schemes has been required of well under 3,000 larger employers (those with 1,250 or more employees, as at the beginning of September 2013).

Over the next 18 months, around a further 35,000 employers will be required to auto-enrol eligible jobholders, with many other employers covered by later staging dates working through exactly how they will comply.

Our survey, which is predominantly of firms with existing pension arrangements, found that the scale of change in workplace pension arrangements as a result of auto-enrolment was likely to be significant. **Two-thirds of employers said they would be changing their pension arrangements as a consquence of auto-enrolment**. The extent of change is likely to be most marked amongst smaller employers (with fewer than 500 employees), where eight out of ten expect to change their arrangements and where many existing schemes may fall short of the new auto-enrolment standards (see *Figure 2* below and *Table 3*, page 16).

Figure 2: Has or will your business change its workplace pension arrangements as a result of the requirement to auto-enrol all eligible jobholders into an auto-enrolment scheme from your staging date?



(Source: ACA 2013 Pension trends survey, First Report, Table 3, page 16)

The survey found a very broad spread of responses in terms of the pension arrangements that are likely to be available to eligible jobholders on auto-enrolment. **Whilst just over a half of employers expect to enrol all eligible jobholders into either an existing or new defined contribution scheme sponsored by the firm, a fifth expect to enrol employees into NEST or a new multi-employer scheme**. The choice of NEST or another multi-employer scheme is particularly favoured by firms with fewer than 500 employees.

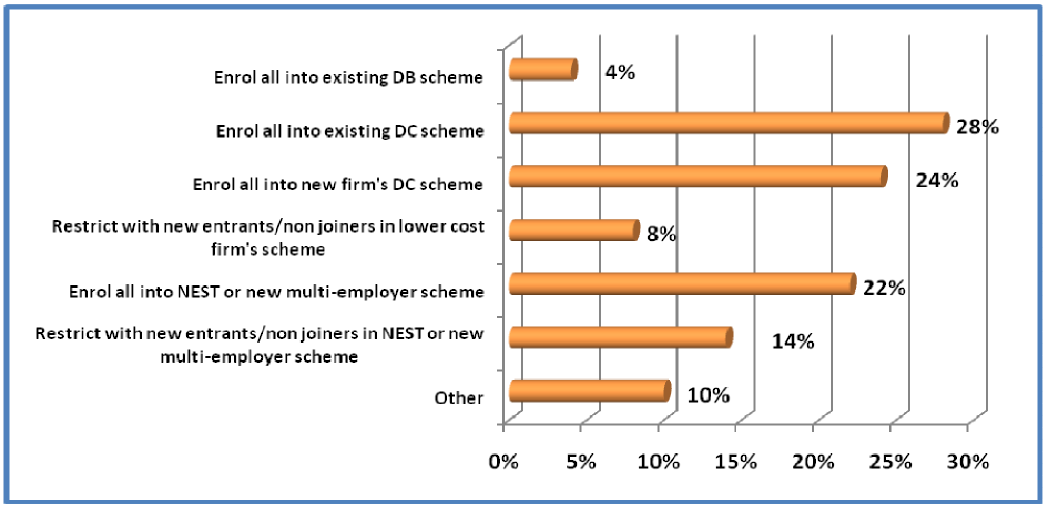
A fifth of employers also say they expect to restrict previous non joiners and new entrants to a lower-cost scheme sponsored by the firm or a multi-employer scheme or NEST with existing members remaining in the principal scheme (see *Figure 3* over page and *Table 4*, page 16).

[5] **Eligible jobholders** are those aged 22 or over and below State Pension Age with earnings above £9,440 per annum.

Only a small number of large employers are prepared to auto-enrol all eligible jobholders into an existing defined benefit scheme and in the main these are employers that have already been required to auto-enrol.

The scale of the benefit design changes over the next few years (where employers already offer schemes) will present both employers and the pensions industry with major challenges and opportunities. This will come on top of the even larger job of coping with the majority of firms which at present offer no pension scheme at all. Already there are suggestions that the capacity of the industry to handle the 2014 load is limited – a load that only then accelerates through to 2018. As we noted last year in our report on smaller firms' pensions, there are probably even more arduous times ahead for The Pensions Regulator over the period[6].

Figure 3: As a result of auto-enrolment what has been/will be your most likely change to your workplace pension arrangements?



(Source: ACA 2013 Pension trends survey, First Report, Table 4, page 16. Note: More than one answer given by some respondents)

Our second report on this survey to be published later this year will explore in greater detail employers' views, preparations and actions to date in respect of auto-enrolment.

New drivers of change

Aside from pension changes driven by auto-enrolment, another Government policy is likely to hasten a widespread review of remaining open defined benefit schemes. With the introduction of the single-tier State Pension in 2016, the ability to contract-out of the State second pension scheme will end for defined benefit schemes and their members. **Whilst our survey found more than half of employers (57%) with schemes open to future accrual have not yet decided what they will do, of the remainder some 14% say this change will cause them to close their scheme**, with a further one in ten likely to make adjustments to take account of the loss of the national insurance rebate (see *Table 5*, page 17). Very few

[6] ACA Survey Report, *A million challenges ahead*, published 15 October 2012 pages 17-18 at www.aca.org.uk (see 'Research' page).

employers to date seem to have decided whether they will take advantage of the statutory override[7] that is due to be enacted via the *2013 Pensions Bill*.

What employers will do over the next few years in terms of changing their pension arrangements may also be influenced by the latest Government initiatives designed to reinvigorate workplace pensions. Greater detail about these proposals is outlined in the DWP paper *Reshaping workplace pensions for future generations*[8]. In the next section of the report we explore responses from employers gleaned ahead of the publication of this latest DWP paper arising from survey questions put to them based on the earlier DWP *Reinvigorating workplace pensions*[9] paper, which summarised most of the emerging proposals.

[7] The *2013 Pensions Bill* includes a statutory override to support employers in making changes to their defined benefit scheme benefits to recover the loss of the NI rebate, in consultation with employees in their schemes.
[8] DWP paper, *Reshaping workplace pensions for future generations,* published 7 November 2013, Cmnd 8710.
[9] DWP paper, *Reinvigorating workplace pensions*, published November 2012, Cmnd 8478.

Section 2 – The unfinished agenda: reinvigorating workplace pensions

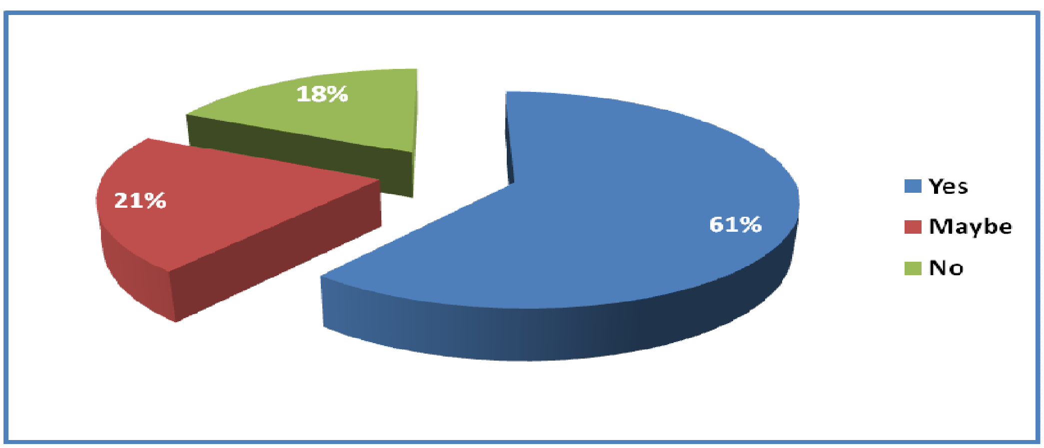
Whilst auto-enrolment will over the next five years widen pension coverage so workplace schemes are offered by upwards of a million employers, of itself the policy sets a relatively low minimum standard for both pension contributions from employers and employees and no significant new guarantees for members in the shape of emerging pensions on retirement.

Last summer, Steve Webb, the Pensions Minister set a 'summer challenge' to the pensions industry to look at the market gap in relation to affordable guarantees. He enunciated the belief that new forms of pension – what he termed '**Defined Ambition (DA) pensions**' – could create high quality provision that would appeal to members as well as to employers. He has argued that removing some of the constraints of regulation from the past will allow a better balance of risk sharing and mean defined benefit pensions can continue to be offered by employers who wish to do so, while enabling new forms of provision to develop that continue to have some guarantees about how benefits accrue. On reforming defined contribution, he has argued that the addition of guaranteed elements in DA pensions might encourage consumers to engage with pension saving and give them more certainty about their eventual retirement income.

Following the establishment of an Industry Working Group to look into DA pensions, the DWP published a paper in November 2012 that outlined some of the ideas that were being considered by the Group and the DWP. For this year's survey on reforms, we based our questionnaire on those ideas, many of which have been developed since November and have been included in the latest DWP consultation, *Reshaping workplace pensions for future generations*[10].

Looking at the big picture, **the survey found that six out of ten employers would consider offering pension arrangements where they could cap their costs whilst also offering greater certainty of pension income for members** (see *Figure 4* below and *Table 6*, page 17).

Figure 4: As an employer, if you could offer a pension scheme to your members that enabled you to cap your pension costs, whilst also offering greater certainty of pension income for your employees than most current defined contribution schemes offer, would you consider such an option?



(Source: ACA 2013 Pension trends survey, First Report, Table 6, page 17)

[10] DWP paper, *Reshaping workplace pensions for future generations,* published 7 November 2013, Cmnd 8710.

Whilst it might be expected that larger firms would be particularly supportive of new design options, the survey found that smaller firms are firmly interested in the concept – firms where generally defined contribution pension arrangements are prevalent. This suggests the DA initiative has a wider appeal than just for those employers that are looking to move away from final salary arrangements to some less onerous 'middle way' scheme between final salary and traditional defined contribution.

Larger employers back key DA ideas

Whilst most smaller employers expressed no view on the principal DA ideas that look to retain an element of defined benefit[11], firms employing 500 or more employees said they were supportive of legislation to permit the following designs (also see F*igure 5* over page and *Table 7*, page 18):

- ✓ **Core defined benefit schemes with no requirement to index benefits on an annual basis,**
- ✓ **An option for a defined benefit scheme where employers could automatically convert leavers' benefits to a defined contribution scheme (and possibly retirees' benefits to an annuity),**
- ✓ **An ability for employers to adjust scheme pension age in line with changes in State Pension Age or some other objective index.**

Although still supported by many larger employers, the following proposed design achieved less interest, perhaps because respondents felt the flexibility in this design might be more difficult to communicate to members, as well as presenting greater uncertainty over the funding cost that such a design might entail:

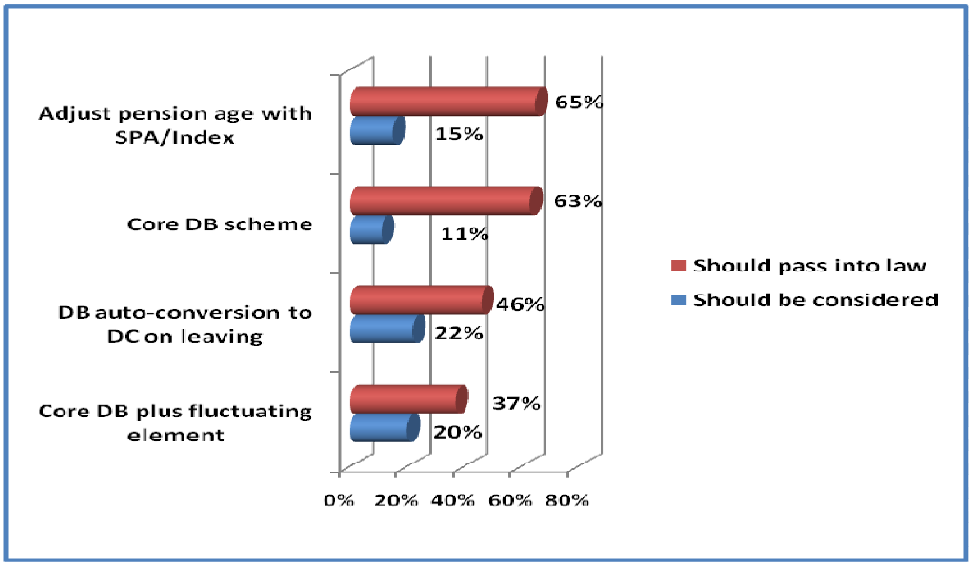
- ✓ **A core defined benefit scheme with a funded fluctuating element so pension benefits can be supplemented in good years and restricted to core benefits when investment performance is weak.**

The challenge for the Government in pursuing these DA designs is that it will have to head off those who will see them as likely to erode employers' support for existing final salary and career average schemes (including public sector schemes) that remain open and, from a different standpoint, those who say employers have given up on taking the risk of any form of defined benefit promise, not least because of the difficulty in 'future-proofing' these types of schemes from Government sponsored 'embellishments' in years to come.

Six out of ten employers expressed support for the Government considering legislation that would make it simpler to automatically convert accrued pension benefits so they can be rationalised and crystallised into a consolidated 'new' scheme benefit at fair value, with this particularly supported by larger employers, where the benefits of such a change are likely to be most usefully felt in terms of simplification of administration (see *Table 8*, page 19).

[11] For a summary of the principal DA ideas see DWP paper, *Reshaping workplace pensions for future generations,* published 7 November 2013, Cmnd 8710, pages 6-8 and pages 16-48.

Figure 5: Employers with 500 or more employees - The November 2012 pension 'reinvigoration' paper suggested a number of reforms that might encourage employers to offer workplace pensions where risks are or continue to be shared. What do you think of the various ideas proposed to date?



(Source: ACA 2013 Pension trends survey, First Report, Table 7, page 18)

Support for retirement income guarantee

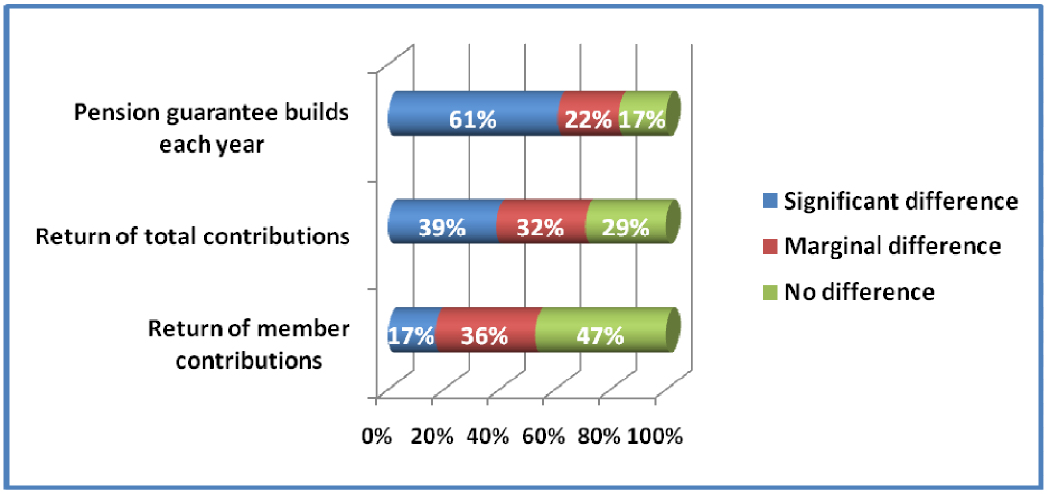
Turning to enhancements in the design of defined contribution arrangements, again **six out of ten employers said they thought there would be a significant difference in the number of employees who would consider joining (or staying in) a defined contribution scheme or who would pay higher contributions if the qualifying default fund secured a guaranteed pension income building up year by year** (see *Figure 6* over page and *Table 9*, page 19).

Whilst **four out of ten employers also felt a money back guarantee of total employer and employee contributions would make a significant difference**, **fewer than two out of ten thought a money back guarantee of just member contributions would deliver**.

Generally smaller employers were more enthusiastic about the impact of all three guarantees, but with the guaranteed pension income building year by year a clear favourite.

Support for such guarantees is understandable in terms of communicating the certainty of a pension to employees, but the degree to which the cost of each design reduces investment returns over the life of a pension needs to be very carefully considered by Government, the pensions industry, employers and employees alike.

Figure 6: If you run a defined contribution scheme (or are considering offering such a scheme) do you think more employees would consider joining or paying higher contributions if there was one of the following 'guarantees' at either retirement or death in respect of contributions held in a qualifying default fund run by the scheme? (Question noted: the greater the guarantee, the higher the cost and the greater the impact on investment returns)



(Source: ACA 2013 Pension trends survey, First Report, Table 9, page 19)

Fixed-term pension idea welcomed

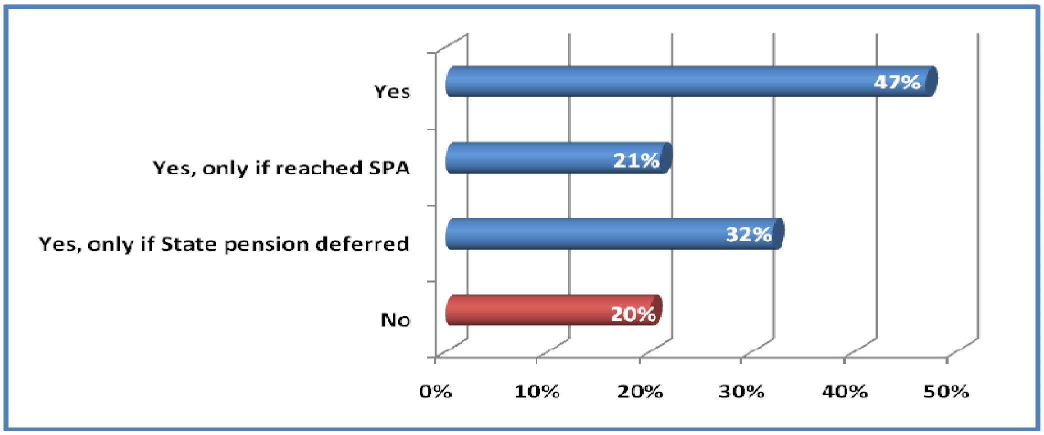
A further design innovation that it is hoped the Pension Minister's recently announced 'task force' (to look into new ways scheme members can draw down their pension savings) will consider is the idea of a fixed-term pension. **A clear majority of employers support a fixed-term pension enabling retirees to draw an income from a small pension pot over a few years rather than converting their pot into what might otherwise amount to a small monthly or annual retirement annuity** (see *Figure 7* over page and *Table 10*, page 20). A significant number of employers felt that a fixed-term pension should be restricted to only those retirees who defer their State pension (increasing this as a result from when it is drawn under existing Government rules), with others also saying that such a facility should not be available to those retiring earlier than State Pension Age.

Over the next few decades the number of smaller pots will increase hugely as millions of employees are auto-enrolled into schemes with often modest minimum levels of joint contributions. In particular, those new savers being auto-enrolled from, say, age 45 upwards will often be unable to grow their pot to anything other than a modest size before retirement. 'Smallish' pension pots will proliferate. For those rising numbers in DC, fixed-term pensions could provide individuals with smaller pension savings with greater certainty over receiving back the money they have opted to save for their own retirement in the early, active part of retirement – improving confidence in the system.

Currently there is a 'gap' in the flexibility allowed to retirees with pots greater than £18,000 and less than around £225,000. Presently, those with total pensions valued at less than £18,000 can opt for 'trivial commutation' from age 60, although the rules are restrictive in, for example, requiring that all pension rights are extinguished by the lump-sum payment and commutation should be within a 12 month period. At the other end of the scale, those individuals who can show a minimum annual income of £20,000 or more (inclusive of the State pensions) can opt for 'flexible drawdown' giving this small group greater flexibility, including the option for DC savers not to annuitise their pot at any age (albeit there are again restrictions and tax charges that have generally limited take-up of the option). In between, flexibility is very limited.

Fixed-term pensions might work as follows. At State Pension Age (SPA) the individual pension saver would be provided with a new option of taking a fixed-term pension in return for the contractual deferral of their State pension. The facility might not be available to early retirees generally, but could be made available at an earlier age than SPA for those retiring early due to proven ill health. Individuals would be able to enhance their State pension (under the *2013 Pensions Bill* changes) by up to 26% if they deferred drawing it for example for 5 years, with schemes/providers being required to offer an option to provide fixed-term pensions (on an open market option basis) over the period of the deferral.

Figure 7: Particularly in the early years of auto-enrolment, many retirees will have only small pension pots to convert into pension income, yielding very low regular pension payments on top of the State pension. Do you think the Government should permit those retirees with small pots below a certain value to buy a fixed-term pension payable over say 5 years, enabling them to choose to retire before SPA or to defer taking their State pension?



(Source: ACA 2013 Pension trends survey, First Report, Table 10, page 20. Note: More than one answer given by some respondents)

Mixed feelings on 'scale'

The Government and the pensions industry have underscored the value of scale in offering the likely opportunity for improved investment returns via the benefits flowing from the pooling of investment and lower administration costs per head.

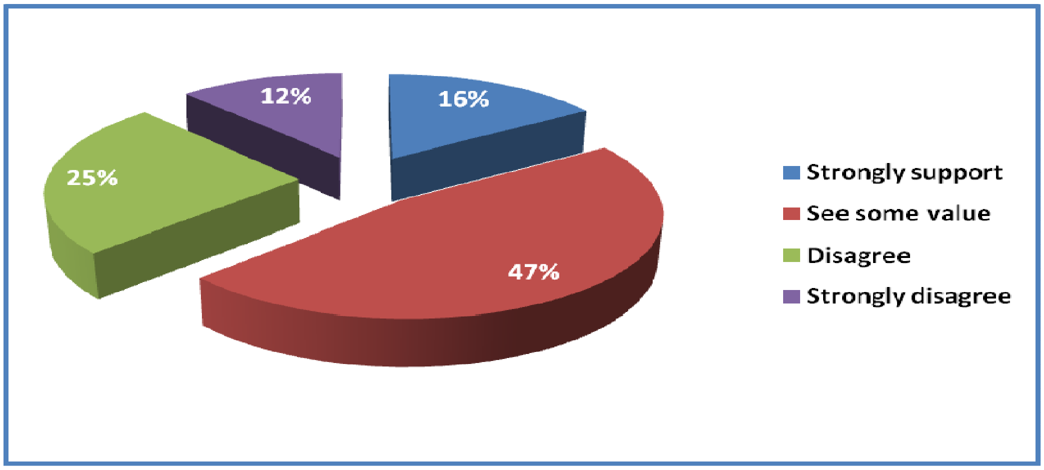
The survey found employers generally have mixed feelings about the benefits of scale and the Government's role in encouraging it. **Six out of ten employers oppose the Government taking a role in encouraging consolidation of schemes in the pensions market**, with smaller firms most strongly opposed to such an initiative (see *Table 11*, page 20).

A small majority also oppose the Government facilitating and encouraging the development of large collective schemes where risks might be shared between members or between members and employers, with again smaller firms much less supportive of such an approach (see *Table 12*, page 20). These views were echoed in responses to a question about whether the Government should encourage businesses with small defined contribution arrangements to merge these schemes into larger multi-employer arrangements. **Whilst six out of ten employers were supportive or saw the value of such**

an approach, smaller firms were again much more doubtful about Government intervention (see see *Figure 8* below and *Table 13*, page 21).

One possibility here is that our sample of employers is largely made up of smaller firms that already run pension arrangements, many of which will have been tailored to meet the needs of this minority within the smaller firms sector as a whole. As a result, many may feel their firm's sponsoring of a scheme has a particular value to their employees. This may also make them reluctant to consider losing their identity within larger multi-employer solutions by dint of Government intervention – a view that could be different from the majority of smaller firms that presently offer no pension arrangements.

Figure 8: Do you believe Government should encourage businesses with small DC arrangements to merge these schemes into larger multi-employer arrangements?

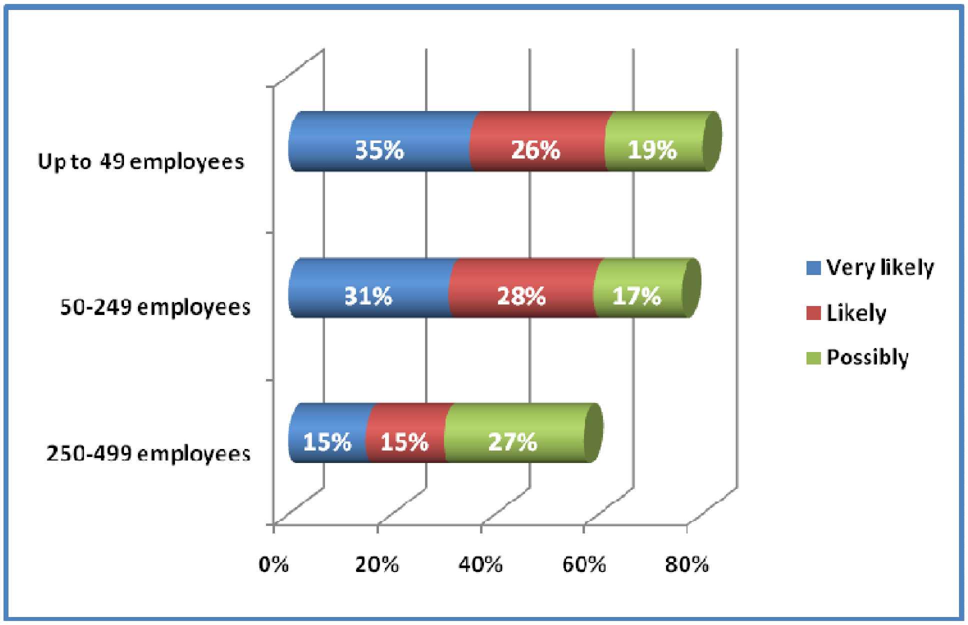


(Source: ACA 2013 Pension trends survey, First Report, Table 13, page 21)

Employers are divided, largely on grounds of size, on the likelihood of them offering to employees a DC-type pension as part of a bigger multi-employer arrangement. **Over three-quarters of larger employers (with 1,000 or more employees) said they would not offer such a scheme, whereas over three-quarters of smaller employers (499 or fewer employees) agreed that a decision to opt for a larger multi-employer arrangement was either likely or possible in their circumstances** (see *Figure 9* over page and *Table 14*, page 21).

It seems likely that as auto-enrolment progresses through the stages to include small employers who presently provide no pension arrangements, many will see the value of opting for either NEST or one of the growing number of other multi-employer schemes. Indeed, the ¾ million of firms with fewer than 5 employees (all of which are due to auto-enrol employees in stages from mid-2015) may well find that there are few providers other than NEST prepared to take on the administration of their pension arrangements. Capacity issues may also mean similar restrictions in choice for many firms with 5 or more employees.

Figure 9: Employers with 499 or fewer employees - How likely would you be to offer your employees a pension which is like a DC pension, but which is part of a much bigger scheme which other employers belong to?



(Source: ACA 2013 Pension trends survey, First Report, Table 14, page 21)

Voluntary approach to 'Star rating'

A clear majority of employers said the Government should not intervene and establish a 'star rating' system for pension schemes covering, for example, charges, governance and transparency.

However, over a third (37%) said that the Government should encourage the Regulators to set up a voluntary scheme (see *Table 15*, page 21).

Conclusion: growing workplace pensions fit for purpose

The survey findings point to a solid base of employers interested in supporting the unfinished pensions agenda. It is to be hoped that the consultation exercise (to 19th December 2013) on the proposals included in the Government paper *Reshaping workplace pensions for future generations* will cause more employers to consider the new opportunities and to lend their support to the ideas in the paper.

Whilst auto-enrolment offers a genuine opportunity to extend workplace pension coverage to millions more employees, it is vitally important that the schemes which employees join are designed and developed to be fit for purpose. By this we mean that the pensions delivered are robust enough to provide millions more retirees with incomes that allow for a comfortable retirement, without dependency on State welfare benefits. As well as the designs featured in this report, our second report on this survey will examine some of the other challenges in meeting the 'fit for purpose' objective.

Statistical Appendix: ACA 2013 Pension trends survey results

The survey was conducted by the Association of Consulting Actuaries (ACA) in the summer of 2013 for online completion and was circulated to UK employers of all sizes, selected on a random basis. Responses were received from 308 employers with over 430 pension schemes. This survey report focuses on general workplace pension trends, including changes driven by auto-enrolment and the Government's ongoing pension reforms.

Figures in (brackets) are where comparable 2012 figures are available from our *Smaller firms pensions* survey conducted in 2012. Where this is the case, it is indicated.

Employers responding to the survey and the changing pension scene

Table 1

Breakdown of employers responding to survey (by number of employees)

Up to 49 employees	50-249 employees	250-499 employees	500-999 employees	1000-4999 employees	5000 employees +
23%	18%	11%	15%	13%	20%

Table 2

A. Types of open and closed pension arrangement offered by employers and participation rates

Type of pension scheme (if any)	Percentage of employers with schemes	% Closed to new entrants	% Closed to new entrants and future accruals/ contributions	Median band of eligible employees in membership
Final salary scheme	39%	55%	36%	71-80%
Career average scheme	7%	5%	5%	51-60%
Cash balance	1%	-	-	Under 50%
Mixed DB / DC	3%	11%	11%	Under 50%
Trust based DC	21%	18%	18%	Under 50%
Group Personal Pension	43%	9%	9%	Under 50%
Stakeholder	26%	28%	28%	Under 50%
NEST	2%	-	-	Under 50%
No Schemes	8%	-	-	-

B. Types of pension arrangements run by employers with schemes responding to survey

	Up to 49 employees	50-249 employees	250-499 employees	500-999 employees	1000-4999 employees	5000+ employees	All Employers
Defined benefit scheme only	2%	4%	7%	5%	8%	17%	**7%**
Defined benefit + contribution	8%	39%	20%	62%	53%	62%	**40%**
Defined contribution only	90%	57%	73%	33%	39%	21%	**53%**

Table 3

Has or will your business change its workplace pension arrangements as a result of the requirement to auto-enrol all eligible jobholders into an auto-enrolment scheme from your staging date?

	Up to 49 employees	50-249 employees	250-499 employees	500-999 employees	1000-4999 employees	5000+ employees	All Employers
Yes	89%	80%	80%	68%	50%	37%	**67%**
No	11%	20%	20%	32%	50%	63%	**33%**

Table 4

As a result of auto-enrolment what has been/will be your most likely change to your workplace pension arrangements?

	Up to 49 employees	50-249 employees	250-499 employees	500-999 employees	1000-4999 employees	5000+ employees	All Employers
Enrol all eligible jobholders into existing DB scheme	-	-	-	2%	5%	13%	**4%**
Enrol all eligible jobholders into existing DC scheme	12%	19%	17%	27%	43%	50%	**28%**
Enrol all eligible jobholders into a new DC scheme	22%	33%	20%	20%	22%	23%	**24%**
Enrol all eligible jobholders into NEST or new multi-employer scheme	40%	35%	33%	16%	5%	-	**22%**
Restrict entry of pre auto-enrolment non joiners and new entrants to new lower cost scheme sponsored by firm	6%	4%	10%	18%	8%	5%	**8%**
Restrict entry of pre auto-enrolment non joiners and new entrants to NEST or new multi-employer scheme	24%	6%	23%	14%	19%	3%	**14%**
Other	4%	12%	10%	14%	11%	13%	**10%**

(**Note**: more than one answer given by some respondents)

Table 5

Alongside the introduction of the single-tier State Pension in 2016, the ability to contract-out of the State second pension scheme will end for DB schemes and their members. If you run a contracted out pension scheme open to future accrual, how do you expect to respond?

Adjust for loss of NI rebate	Carry on as before	Close scheme	Not yet decided
11%	18%	14%	57%

The unfinished agenda: reinvigorating workplace pensions

Table 6

As an employer, if you could offer a pension scheme to your members that enabled you to cap your pension costs, whilst also offering greater certainty of pension income for your employees than most current defined contribution schemes offer, would you consider such an option?

	Up to 49 employees	50-249 employees	250-499 employees	500-999 employees	1000-4999 employees	5000+ employees	All Employers
Yes	75%	66%	62%	55%	56%	48%	**61%**
Maybe	15%	18%	16%	33%	22%	26%	**21%**
No	10%	16%	22%	12%	22%	26%	**18%**

Table 7

The November 2012 pension 'reinvigoration' paper suggested a number of reforms that might encourage employers to offer workplace pensions where risks are or continue to be shared. What do you think of the various ideas proposed to date?

<table>
<tr><th>A core DB scheme with, for e.g., no requirement to index benefits</th><th>Up to 49 employees</th><th>50-249 employees</th><th>250-499 employees</th><th>500-999 employees</th><th>1000-4999 employees</th><th>5000+ employees</th><th>All Employers</th></tr>
<tr><td rowspan="2">Legislation should be passed to allow</td><td colspan="2" rowspan="2">15%</td><td rowspan="2">15%</td><td colspan="3">63%</td><td rowspan="2">38%</td></tr>
<tr><td>52%</td><td>50%</td><td>79%</td></tr>
<tr><td rowspan="2">Legislation should be considered</td><td colspan="2" rowspan="2">13%</td><td rowspan="2">21%</td><td colspan="3">11%</td><td rowspan="2">13%</td></tr>
<tr><td>15%</td><td>18%</td><td>3%</td></tr>
<tr><td rowspan="2">Not a legislative priority/No view</td><td colspan="2" rowspan="2">72%</td><td rowspan="2">64%</td><td colspan="3">26%</td><td rowspan="2">49%</td></tr>
<tr><td>33%</td><td>32%</td><td>18%</td></tr>
</table>

<table>
<tr><th>A core DB scheme with a funded fluctuating element to supplement core benefits in good years</th><th>Up to 49 employees</th><th>50-249 employees</th><th>250-499 employees</th><th>500-999 employees</th><th>1000-4999 employees</th><th>5000+ employees</th><th>All Employers</th></tr>
<tr><td rowspan="2">Legislation should be passed to allow</td><td colspan="2" rowspan="2">10%</td><td rowspan="2">35%</td><td colspan="3">37%</td><td rowspan="2">26%</td></tr>
<tr><td>33%</td><td>35%</td><td>42%</td></tr>
<tr><td rowspan="2">Legislation should be considered</td><td colspan="2" rowspan="2">12%</td><td rowspan="2">9%</td><td colspan="3">20%</td><td rowspan="2">15%</td></tr>
<tr><td>9%</td><td>18%</td><td>29%</td></tr>
<tr><td rowspan="2">Not a legislative priority/No view</td><td colspan="2" rowspan="2">78%</td><td rowspan="2">56%</td><td colspan="3">43%</td><td rowspan="2">59%</td></tr>
<tr><td>58%</td><td>47%</td><td>29%</td></tr>
</table>

<table>
<tr><th>An option for DB scheme to automatically convert leavers' benefits to a DC scheme (and possibly retirees' benefits to an annuity)</th><th>Up to 49 employees</th><th>50-249 employees</th><th>250-499 employees</th><th>500-999 employees</th><th>1000-4999 employees</th><th>5000+ employees</th><th>All Employers</th></tr>
<tr><td rowspan="2">Legislation should be passed to allow</td><td colspan="2" rowspan="2">16%</td><td rowspan="2">35%</td><td colspan="3">46%</td><td rowspan="2">33%</td></tr>
<tr><td>46%</td><td>40%</td><td>52%</td></tr>
<tr><td rowspan="2">Legislation should be considered</td><td colspan="2" rowspan="2">18%</td><td rowspan="2">21%</td><td colspan="3">22%</td><td rowspan="2">20%</td></tr>
<tr><td>13%</td><td>25%</td><td>26%</td></tr>
<tr><td rowspan="2">Not a legislative priority/No view</td><td colspan="2" rowspan="2">66%</td><td rowspan="2">44%</td><td colspan="3">32%</td><td rowspan="2">47%</td></tr>
<tr><td>41%</td><td>35%</td><td>22%</td></tr>
</table>

<table>
<tr><th>An ability for schemes to adjust scheme pension age in line with SPA changes or some other objective index</th><th>Up to 49 employees</th><th>50-249 employees</th><th>250-499 employees</th><th>500-999 employees</th><th>1000-4999 employees</th><th>5000+ employees</th><th>All Employers</th></tr>
<tr><td rowspan="2">Legislation should be passed to allow</td><td colspan="2" rowspan="2">12%</td><td rowspan="2">44%</td><td colspan="3">65%</td><td rowspan="2">41%</td></tr>
<tr><td>57%</td><td>53%</td><td>81%</td></tr>
<tr><td rowspan="2">Legislation should be considered</td><td colspan="2" rowspan="2">16%</td><td rowspan="2">12%</td><td colspan="3">15%</td><td rowspan="2">15%</td></tr>
<tr><td>22%</td><td>22%</td><td>5%</td></tr>
<tr><td rowspan="2">Not a legislative priority/No view</td><td colspan="2" rowspan="2">72%</td><td rowspan="2">44%</td><td colspan="3">20%</td><td rowspan="2">44%</td></tr>
<tr><td>21%</td><td>25%</td><td>14%</td></tr>
</table>

Table 8

Would you support Government considering legislation that made it simpler to automatically convert accrued pension benefits so they can be rationalised and crystallised into a consolidated 'new' scheme benefit at 'fair value'?

	Up to 49 employees	50-249 employees	250-499 employees	500-999 employees	1000-4999 employees	5000+ employees	All Employers
Yes	41%	49%	64%	70%	72%	76%	**61%**
No	59%	51%	36%	30%	28%	24%	**39%**

Table 9

If you run a defined contribution scheme (or are considering offering such a scheme) do you think more employees would consider joining or paying higher contributions if there was one of the following 'guarantees' at either retirement or death in respect of contributions held in a qualifying default fund run by the scheme? (Note: the greater the guarantee, the higher the cost and the greater the impact on investment returns).

<table>
<tr><th>Money back guarantee of member contributions</th><th>Up to 49 employees</th><th>50-249 employees</th><th>250-499 employees</th><th>500-999 employees</th><th>1000-4999 employees</th><th>5000+ employees</th><th>All Employers</th></tr>
<tr><td rowspan="2">Yes, would make significant difference</td><td>22%</td><td>25%</td><td rowspan="2">19%</td><td rowspan="2">14%</td><td rowspan="2">11%</td><td rowspan="2">9%</td><td rowspan="2">17%</td></tr>
<tr><td colspan="2">(17%)</td></tr>
<tr><td rowspan="2">Yes, would make a marginal difference</td><td>37%</td><td>30%</td><td rowspan="2">33%</td><td rowspan="2">36%</td><td rowspan="2">42%</td><td rowspan="2">39%</td><td rowspan="2">36%</td></tr>
<tr><td colspan="2">(32%)</td></tr>
<tr><td rowspan="2">No</td><td>41%</td><td>45%</td><td rowspan="2">48%</td><td rowspan="2">50%</td><td rowspan="2">47%</td><td rowspan="2">52%</td><td rowspan="2">47%</td></tr>
<tr><td colspan="2">(51%)</td></tr>
</table>

Money back guarantee of total contributions	Up to 49 employees	50-249 employees	250-499 employees	500-999 employees	1000-4999 employees	5000+ employees	All Employers
Yes, would make significant difference	45%	47%	41%	36%	28%	35%	**39%**
Yes, would make a marginal difference	36%	32%	33%	36%	31%	26%	**32%**
No	19%	21%	26%	28%	41%	39%	**29%**

Guaranteed pension income building year by year	Up to 49 employees	50-249 employees	250-499 employees	500-999 employees	1000-4999 employees	5000+ employees	All Employers
Yes, would make significant difference	70%	68%	66%	56%	58%	48%	**61%**
Yes, would make a marginal difference	16%	21%	15%	27%	20%	30%	**22%**
No	14%	11%	19%	17%	22%	22%	**17%**

(**Note:** Figures in brackets are from *2012 ACA Smaller Firms Pension Survey*)

Table 10

Particularly in the early years of auto-enrolment, many retirees will have only small pension pots to convert into pension income, yielding very low regular pension payments on top of the State pension. Do you think the Government should permit those retirees with small pots below a certain value to buy a fixed term pension payable over say 5 years, enabling them to choose to retire before SPA or to defer taking their State pension?

	Up to 49 employees	50-249 employees	250-499 employees	500-999 employees	1000-4999 employees	5000+ employees	All Employers
Yes	55%	47%	53%	39%	44%	41%	**47%**
Yes, but small pot should only be used in this way after SPA	22%	20%	20%	25%	22%	18%	**21%**
Yes, but small pot should only be used if the State Pension is deferred	28%	37%	23%	34%	31%	36%	**32%**
No	8%	20%	23%	22%	28%	27%	**20%**

(**Note**: more than one answer given by some respondents)

Table 11

Should Government take a role in encouraging consolidation of schemes in the pensions market?

<table>
<tr><th></th><th>Up to 49 employees</th><th>50-249 employees</th><th>250-499 employees</th><th>500-999 employees</th><th>1000-4999 employees</th><th>5000+ employees</th><th>All Employers</th></tr>
<tr><td rowspan="2">Yes</td><td>34%</td><td>32%</td><td rowspan="2">26%</td><td rowspan="2">33%</td><td rowspan="2">58%</td><td rowspan="2">57%</td><td rowspan="2">41%</td></tr>
<tr><td colspan="2">(22%)</td></tr>
<tr><td rowspan="2">No</td><td>66%</td><td>68%</td><td rowspan="2">74%</td><td rowspan="2">67%</td><td rowspan="2">42%</td><td rowspan="2">43%</td><td rowspan="2">59%</td></tr>
<tr><td colspan="2">(78%)</td></tr>
</table>

(Note: Figures in brackets are from *2012 ACA Smaller Firms Pension Survey*)

Table 12

Should Government facilitate and encourage the development of large collective schemes where, for example, investment, inflation and longevity risks might be shared between members or between members and employers?

<table>
<tr><th></th><th>Up to 49 employees</th><th>50-249 employees</th><th>250-499 employees</th><th>500-999 employees</th><th>1000-4999 employees</th><th>5000+ employees</th><th>All Employers</th></tr>
<tr><td rowspan="2">Yes</td><td>41%</td><td>38%</td><td rowspan="2">31%</td><td rowspan="2">50%</td><td rowspan="2">62%</td><td rowspan="2">58%</td><td rowspan="2">48%</td></tr>
<tr><td colspan="2">(33%)</td></tr>
<tr><td rowspan="2">No</td><td>59%</td><td>62%</td><td rowspan="2">69%</td><td rowspan="2">50%</td><td rowspan="2">38%</td><td rowspan="2">42%</td><td rowspan="2">52%</td></tr>
<tr><td colspan="2">(67%)</td></tr>
</table>

(Note: Figures in brackets are from *2012 ACA Smaller Firms Pension Survey*)

Table 13

Do you believe Government should encourage businesses with small DC arrangements to merge these schemes into larger multi-employer arrangements?

	Up to 49 employees	50-249 employees	250-499 employees	500-999 employees	1000-4999 employees	5000+ employees	All Employers
Yes, we strongly support this	5%	10%	15%	14%	26%	30%	**16%**
Yes, we see some value in such an approach	35%	42%	41%	61%	50%	56%	**47%**
On balance, we disagree	35%	29%	29%	22%	21%	12%	**25%**
No, we strongly disagree	25%	19%	15%	3%	3%	2%	**12%**

Table 14

How likely would you be to offer your employees a pension which is like a DC pension, but which is part of a much bigger scheme which other employers belong to?

	Up to 49 employees	50-249 employees	250-499 employees	500-999 employees	1000-4999 employees	5000+ employees	All Employers
Very likely	35%	30%	15%	6%	5%	2%	**17%**
Likely	26%	28%	15%	12%	11%	4%	**16%**
Possibly	19%	17%	27%	24%	8%	5%	**15%**
Not very likely	11%	11%	31%	18%	32%	18%	**19%**
Not at all likely	9%	13%	12%	41%	45%	71%	**33%**

(**Note**: more than one answer given by some respondents)

Table 15

Should the Government establish a 'star rating' system for pension schemes covering, for instance, charges, governance and transparency?

	Up to 49 employees	50-249 employees	250-499 employees	500-999 employees	1000-4999 employees	5000+ employees	All Employers
Yes	14%	15%	15%	29%	23%	39%	**23%**
No, but it should encourage the regulators to set up a voluntary scheme	34%	37%	34%	37%	40%	39%	**37%**
No, this should be an 'opt in' voluntary scheme	10%	9%	10%	8%	11%	7%	**9%**
No	42%	39%	41%	26%	26%	15%	**31%**

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