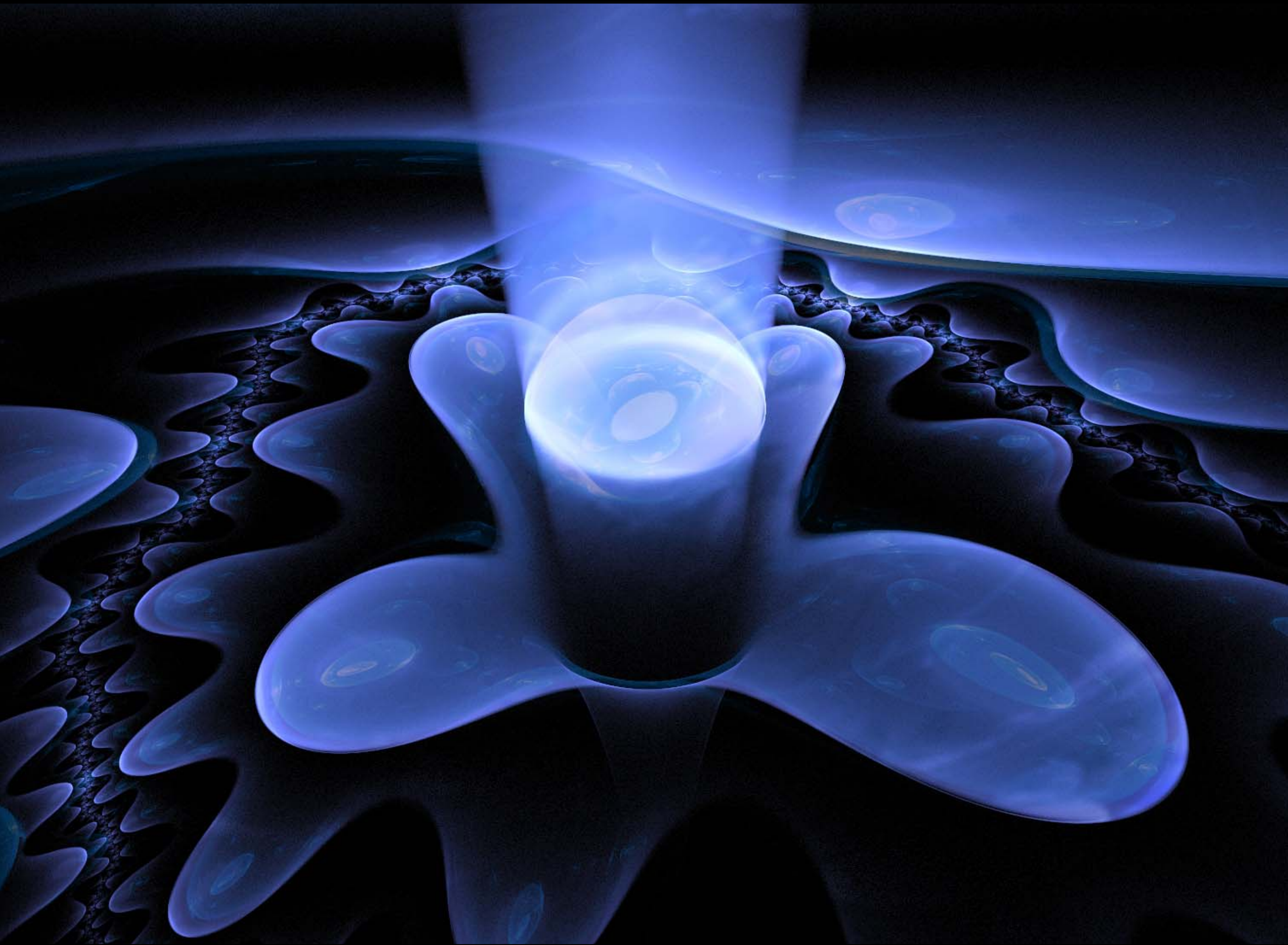
Statistical Analysis:
2009 pension trends survey results



Pensions Reform:
The run up to 2012

Respondents: 309

Figures in (brackets) are where comparable 2007 figures are available.

Table 1
Breakdown of respondent organisations by number of employees

Up to 249 employees	250-999 employees	1000 employees +
25%	24%	51%

Table 2
Do you currently operate auto-enrolment into your workplace pension scheme(s)? (i.e. employees are automatically enrolled in your scheme on joining your organisation or shortly after joining

	Yes	No
Up to 249 employees	7% (6%)	93% (94%)
250 employees and above	25% (20%)	75% (80%)
All schemes	**20%** (18%)	**80%** (82%)

If 'No', are you likely to decide to auto-enrol all employees into your scheme(s) before it becomes a requirement from 2012?

	Yes	No
Up to 249 employees	13%	87%
250 employees and above	26%	74%
All schemes	**22%**	**78%**

If 'No', are you likely to decide to auto-enrol all eligible employees into your scheme(s) from 2012 or are you likely to continue to restrict entry into the scheme(s), with auto-enrolment into personal accounts for those not offered your workplace scheme(s)?

	(a) We are likely to auto-enrol all employees into our workplace scheme(s) from 2012	(b) We are likely to restrict entry into our workplace scheme(s), auto-enrolling the balance of employees into personal accounts	Neither
Up to 249 employees	17% (31%)	55% (42%)	28% (27%)
250 employees and above	77% (58%)	17% (29%)	6% (13%)
All schemes	**59%** (54%)	**28%** (31%)	**13%** (15%)

If 'Yes' to (b), will those auto-enrolled into personal accounts be based on:

	Employment category	Earnings of employee	Other
Up to 249 employees	65%	25%	10%
250 employees and above	66%	17%	17%
All schemes	**65%**	**24%**	**11%**

Table 3
Has your organisation budgeted for what the potential cost increase will be when you have to auto-enrol all employees into either your existing scheme(s) or personal accounts?

	Yes	No
Up to 249 employees	16%	84%
250 employees and above	38%	62%
All schemes	**32%**	**68%**

What presently is your organisation's approximate annual cost of providing workplace pensions as a percentage of payroll and what do you estimate that will increase by (if at all) when auto-enrolment/personal accounts are introduced?

	Average present pension costs as a percentage of payroll	Average estimated increase in payroll costs after auto-enrolment/ personal accounts introduced
Up to 249 employees	11%	3.1%
250 employees and above	16%	3.7%
All schemes	**15%**	**3.6%**

Table 4

If you decide to operate auto-enrolment into your workplace scheme(s), are you likely to revise the benefits offered to mitigate the extra cost of additional members?

	Yes	No
Up to 249 employees	54% (36%)	46% (64%)
250 employees and above	15% (20%)	85% (80%)
All schemes	**24%** (23%)	**76%** (77%)

Table 5

Will auto-enrolment into a pension scheme and the introduction of personal accounts lead you to:

(a) A review of your current pension scheme(s) ahead of 2012

	Yes	No
Up to 249 employees	86%	14%
250 employees and above	51%	49%
All schemes	**59%**	**41%**

(b) Consider closing your scheme(s) in favour of offering personal accounts to all employees

	Yes	No
Up to 249 employees	41% (36%)	59% (64%)
250 employees and above	6% (10%)	94% (90%)
All schemes	**15%** (15%)	**85%** (85%)

Table 6

From 2012, if you presently do not contribute to a workplace pension, you will be required as a minimum to auto-enrol all employees into personal accounts with an employer contribution rising to 3% of each employee's earnings (phased in over 3-years). How do you think you will cope with this change?

Costs will be borne by reduced profitability	Costs will be borne by reducing headcount	Costs will be met by increased prices
35% (37%)	11% (5%)	7% (26%)
A combination of three answers above	**Expect high opt-out to hold costs down**	**Expect personal accounts to be postponed/ abandoned**
24% (32%)	18% (NA)	5% (NA)

'Middle way' pension scheme designs

Table 7

Do you believe existing legislation allows for simple 'middle way' pension designs so schemes can share investment, inflation and longevity risks between employers and employees?

Yes	No
23%	77%

Table 8

Do you believe public policy should be more supportive of 'middle way' pension designs?

Yes	No
76%	24%

Would your organisation consider introducing a 'middle way' pension design if legislation was changed to make this easier?

Yes	No
51%	49%

Are you aware of how any of these types of 'middle way' pension schemes operate?

	Very aware	Aware	Know a little	Not sure	Not aware
Hybrid DB/DC schemes	30%	30%	24%	9%	7%
Cash balance schemes	11%	19%	15%	29%	26%
Conditional Indexation schemes	9%	12%	12%	18%	49%
Collective DC schemes	5%	14%	17%	22%	42%

Other possible pension reforms

Table 9

Do you agree with proposals that above a certain size of individual pension 'pot' (below which an annuity should normally be purchased to ensure State benefits are not claimed), retirees should not be constrained as to how they invest or use their pension savings?

Yes	No
73%	27%

Table 10

Do you agree with proposals that a proportion of accrued pension savings should be available for pension scheme members to draw on for major lifetime events such as house purchase deposits or illness?

Yes	No
44%	56%

Table 11

Overall, do you feel the Government's stated policy of supporting quality workplace pensions is working?

Yes	No
6% (38%)	94% (62%)

What should the Government's MOST IMPORTANT PENSION POLICY CHANGES be?

	2009	2007
1	**Deregulate/simplify pensions**	(Reduced regulation/ increased simplification)
2	**Better financial incentives for pension saving/reverse ACT change**	(Better financial incentives to encourage pension saving)
3	**Reverse 2009 Budget pension tax changes**	(Remove over-regulation of good quality schemes)
4	**Close private/public sector pension gap**	(Reduce means-testing)
5	**Improve Basic State Pension**	(Improve Basic State Pension)

Personal accounts: investment

Table 12

PADA is seeking views on what the overarching investment objective of the personal accounts default fund should be (which it expects most members will sign up to) and how to balance what members want with what is in their best interests. Where do you think this balance should be struck for the personal accounts default fund?

Target replacement income	Benchmark-driven return objective	No explicit target – best efforts
47%	37%	16%

Table 13

Should the personal accounts scheme use alternative asset classes (such as hedge funds, commodities and infrastructure funds) to benefit from potentially improved diversification and investment performance?

'Yes' answers:

Hedge Funds	Private Equity	Commodities	Infrastructure	Property
57%	56%	66%	74%	79%

Table 14

What should be the balance between active and passive managers in the personal accounts default fund (taking into account its low-charge basis)?

Heavily passive managed	c75% passive	c50% passive /50% active	c75% active	Heavily active managed
30%	27%	41%	1%	1%

Table 15

Securities lending can potentially bring extra investment returns. Should the personal accounts scheme participate in securities lending?

Yes	No
29%	71%

Table 16

As individuals approach retirement, is a traditional 'life-styling' approach (switching an individual's savings to lower risk as they approach retirement) appropriate for personal accounts, or should a target-date approach (where the switch to lower risk takes place at the fund level) be considered?

Traditional life-styling	Target-date	Both options in different funds	Other approach
40%	18%	41%	1%

Table 17

Should socially responsible investment be a matter for the personal accounts default fund alone, of for all fund choices?

Default fund only	Not default fund, should be fund choice	All funds
9%	65%	26%

Table 18

What degree of choice beyond the default fund should be offered to personal account members?

(1= high priority, 2= medium priority, 3= low priority)

	High priority	Medium priority	Low priority
None	32%	11%	57%
Risk-graded fund	57%	32%	11%
Religious compliant	20%	29%	51%
Ethical fund	23%	39%	38%
Diversified growth	49%	46%	5%
Gilt fund	54%	31%	15%
Guaranteed fund	45%	37%	18%
With-profit fund	11%	43%	46%

Table 19

Should costs associated with wider fund choice be spread, where possible, across all personal account members, or only apply to those members who choose alternatives to the default fund?

Costs should be spread across all members to encourage choice	Costs should be met by those choosing the alternative funds
28%	72%

Pension Scheme Design

Table 20

What type of pension arrangement do firms offer and what is the total value of scheme assets?

Type of pension scheme	Percentage of firms with such schemes	% Closed to new entrants	% Closed to new entrants and future accruals/ contributions	Total Asset Values (£bn)	Average of eligible employees in membership
Defined benefit scheme	66% (68%)	69% (67%)	18% (14%)	£88.4	72%
Career average scheme	8% (NA)	25% (-)	- (-)	£5.0	75%
Defined contribution	42% (38%)	14% (12%)	5% (4%)	£11.9	62%
Mixed DB / DC	11% (9%)	10% (-)	-	£10.5	64%
Group Personal Pension	22% (21%)	4% (5%)	-	NK	58%
Stakeholder	29% (24%)	-	-	NK	NA
Industry-wide	2% (2%)	33% (50%)	-	£22.9	69%
All Schemes	-	-	-	**£138.7**	66%

(NK: the majority of respondents did not disclose or were unaware of total assets held)

Percentage of schemes contracted-out of SERPS / S2P

	Percentage contracted-out
Defined benefit	80% (92%)
Defined contribution	9% (14%)

Table 21

Spread of pension designs of organisations responding to survey

Employees:	0-249	250-999	1000+
Defined benefit scheme only	3%	27%	17%
Defined benefit + contribution	23%	49%	70%
Defined contribution only	74%	24%	13%
Total sample of firms	**25%** (17%)	**24%** (21%)	**51%** (62%)

What is the distribution of membership of schemes?

	Active	Deferred	Pensioners
Defined benefit	25%	42%	33%
Defined contribution	62%	36%	2%
All schemes	**43%**	**40%**	**17%**

(Scheme average)

Table 22

Why do firms provide employees with pension arrangements (in ranked order)?

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

Table 23

The Chancellor's 2009 Budget proposed major changes to pensions taxation that mean, for those with 'income' over £150,000, pension saving could be tax inefficient from 2011. Income is a wide term, not just pensionable salary: it includes most items subject to income tax, such as salary, bonuses, benefits in kind, personal investment income etc. This involves looking back up to 2 years, so currently someone with high income in 2007/08 or 2008/09 would be caught. Based on your current staff in all your pension arrangements, what percentage of employees do you think may fall into this category?

	None	1-9 employees	10-49 employees	50-99 employees	100 or over employees
Up to 249 employees	53%	28%	16%	3%	-
250 employees and above	4%	44%	29%	7%	16%
All schemes	**16%**	**40%**	**26%**	**6%**	**12%**

Do you think that these Budget proposals will lead to wider changes to company pension arrangements than just changes impacting these members?

Yes	No
68%	32%

Table 24
Changes in pension arrangements over last few years

	In last year	In last 5 years
Closed defined benefit scheme to new entrants	6% (5%)	43% (41%)
Closed defined benefit scheme to future accruals	7% (5%)	8% (8%)
Reduced defined benefit accrual rate for future service	7%	7%
Introduced defined contribution scheme to some or all employees	7% (8%)	28% (22%)
Converted existing defined benefit to mixed DB/DC scheme	2% (2%)	4% (-)
Set up a career average scheme	3% (1%)	5% (3%)
Reduced percentage of employees covered by organisation's scheme	-	2% (4%)
Implemented full or partial scheme buyout	3%	-
Placed one or more schemes in wind-up	5% (4%)	3% (4%)
Established a flexible benefits package with wider benefits option	3% (1%)	8% (6%)
Introduced access to group benefits largely paid for by employees	- (1%)	1% (3%)
Contracted some or all of members back into State Second Pension	5% (8%)	5% (6%)

Table 25
Average of contributions paid into pension schemes (as a percentage of total earnings).

Average employer contributions into:									
	2002	2003	2004	2005	2006	2007	2008	2009	Longer term
Defined benefit scheme	11.5%	13.1%	15.1%	16.5%	21.0%	22.6%	23.0%	23.2%	18.8%
Defined contribution	5.1%	5.2%	5.8%	5.9%	6.0%	6.2%	6.5%	6.7%	7.0%
Group Personal Pension	5.6%	5.6%	5.8%	6.1%	5.8%	6.0%	5.9%	6.0%	6.0%
Stakeholder (see note)	5.0%	5.2%	4.3%	4.5%	4.0%	4.1%	4.5%	4.5%	5.0%

Average employee contributions into:									
	2002	2003	2004	2005	2006	2007	2008	2009	Longer term
Defined benefit scheme	4.3%	4.5%	4.9%	5.5%	5.8%	6.1%	6.1%	6.3%	6.5%
Defined contribution	3.4%	3.5%	4.0%	4.1%	4.1%	4.1%	4.2%	4.3%	4.5%
Group Personal Pension	3.6%	3.8%	3.6%	3.8%	4.0%	3.9%	3.7%	3.9%	4.0%
Stakeholder	3.3%	3.5%	3.7%	3.8%	4.1%	4.1%	4.0%	4.0%	4.5%

Average combined employer and employee contributions into:									
	2002	2003	2004	2005	2006	2007	2008	2009	Longer term
Defined benefit scheme	15.8%	17.6%	20.0%	22.0%	26.8%	28.7%	29.1%	29.5%	25.3%
Defined contribution	8.5%	8.7%	9.8%	10.0%	10.1%	10.3%	10.7%	11.0%	11.5%
Group Personal Pension	9.2%	9.4%	9.4%	9.9%	9.8%	9.9%	9.6%	9.9%	10.0%
Stakeholder (see note)	8.3%	8.7%	8.0%	8.3%	8.1%	8.2%	8.5%	8.5%	9.5%

(Source: ACA 2003, 2005, 2007 and 2009 Pension Trends Surveys)

Note: figures exclude nil employer contributions made into 22% of Stakeholder schemes.

Table 26

Current range of employer contributions

Contribution as % of earnings	Defined Benefit	Defined Contribution	GPP	Stakeholder
0%	-	-	-	22% (28%)
Up to 3%	- (-)	3% (2%)	6% (12%)	15% (11%)
Over 3 – 6%	1% (1%)	48% (53%)	50% (42%)	46% (43%)
Over 6 – 9%	2% (4%)	26% (23%)	38% (35%)	12% (11%)
Over 9 – 12%	11% (14%)	21% (19%)	4% (7%)	4% (7%)
Over 12 – 15%	16% (14%)	2% (3%)	2% (4%)	1% (-)
Over 15 – 20%	17% (18%)	-	-	-
Over 20 - 25%	16% (15%)	-	-	-
Over 25%	37% (34%)	-	-	-

Current range of employee contributions

Contribution as % of earnings	Defined Benefit	Defined Contribution	GPP	Stakeholder
0%	5% (6%)	1% (-)	2% (-)	- (-)
Up to 2%	1% (-)	3% (6%)	12% (7%)	7% (9%)
Over 2 – 4%	8% (10 %)	55% (51%)	49% (50%)	42% (42%)
Over 4 – 6%	39% (42%)	36% (33%)	34% (38%)	50% (46%)
Over 6 – 8%	36% (32%)	5% (10%)	3% (5%)	1% (3%)
Over 8%	11% (10%)	- (-)	-	-

Table 27

Has the normal retirement age of the scheme changed or is it likely to in the near future?

Change in retirement age	
60-65	7%
61-65	2%
62-65	4%
63-65	1%
No change	86%

Defined Benefit Schemes

Table 28

Number of defined benefit schemes advised by their actuaries that their scheme is in deficit when considering it as an ongoing entity

In deficit	Not in deficit
91% (86%)	9% (14%)

When was the most recent scheme valuation?

Year	
2005	3%
2006	29%
2007	31%
2008	31%
2009	6%

Table 29

Bands of ongoing funding level as a percentage of liabilities at the last actuarial assessment

Funding Level	Percentage of firms
+ 100%	8% (14%)
+95 - 100%	10% (9%)
+85 - 95%	39% (44%)
+75% - 85%	29% (23%)
Below 75%	14% (10%)
Average ongoing funding level	**79% (87%)**

Period over which firms say scheme deficits are expected to be removed?

0 – 5 years	25% (15%)
6 – 10 years	53% (56%)
11 – 15 years	15% (20%)
+15 years	7% (9%)

Table 30

If in deficit, have scheme actuaries recommended an increase in contributions?

Yes	No
87% (91%)	13% (9%)

Change in employer defined benefit contribution rates

Employer contribution rate increases	Percentage of firms
+10% of earnings	21% (8%)
+5% - 10%	17% (20%)
+3% - 5%	24% (56%)
0 – 3%	38% (16%)

Have additional employer contributions been made expressed as fixed monthly amounts or significant lump sums?

	Yes
Additional contributions expressed as fixed annual/ monthly amounts	48% (34%)
Significant lump sum contributions	51% (31%)

Have employer contributions been increased to meet future service benefits?

Yes	No
61% (65%)	39% (35%)

Table 31

Number of schemes reporting increase (or future increase) in defined benefit employee contribution rates

Yes, already increased	Yes, will be an increase	No
32%	7%	61%
(45%)		(55%)

Change in employee contribution rates

Employee contribution rate increases	Percentage of firms
+2% of earnings	28% (15%)
+1% - 2%	66% (74%)
0 - 1%	6% (11%)

Change in the accrual rate of benefits in the last year or so

Moved from better than 60ths to 60ths	4% (3%)
Moved from 60ths to between 60ths to 80ths	2% (3%)
Moved from 60ths to 80ths	7% (1%)
Moved from between 60ths to 80ths to more than 80ths	1% (-)

Table 32

Is your defined benefit scheme under review at present?

Yes	No
34%	66%

If 'Yes', what options are being considered?

Changing forward accrual	Changing pension age	Move to career average	Move to mixed DB/DC	Move to DC
39%	9%	35%	8%	22%

Investment Issues - Defined Benefit Schemes

Table 33

Schemes reporting change in investment strategy to a greater proportion in bonds and lower proportion in equities

Yes	No
60% (44%)	40% (56%)

Table 34

Current split of scheme assets between equities, bonds and alternative assets such as property, private equity and hedge funds. Within the next year expectation of how this will change.

		Change expected in next year		
	Present	Increase	Decrease	No change
UK Equities	26% (37%)	4% (6%)	28% (26%)	68% (68%)
Overseas Equities	23% (25%)	6% (11%)	24% (28%)	70% (61%)
Gilts: Fixed Interest	11% (8%)	10% (16%)	1% (7%)	89% (77%)
Gilts: Index linked	10% (5%)	15% (14%)	3% (7%)	82% (79%)
Corporate bonds	15% (10%)	21% (15%)	3% (14%)	76% (71%)
Property	4% (5%)	4% (18%)	4% (13%)	92% (69%)
Private Equity	2% (2%)	2% (6%)	- (8%)	98% (86%)
Hedge Funds	2% (2%)	4% (5%)	2% (5%)	94% (90%)
Cash / deposit	2% (1%)	8% (5%)	2% (4%)	90% (91%)
Active currency	2% (1%)	2% (18%)	1% (-)	97% (82%)
Commodities	1% (2%)	3% (12%)	1% (-)	96% (88%)
Infrastructure	1% (1%)	7% (17%)	- (-)	93% (83%)
Tactical Asset Allocation	1% (1%)	5% (16%)	- (-)	95% (84%)

Table 35

How many fund managers do schemes use?

	Percentage
One	22% (31%)
2 to 4	36% (38%)
5 to 10	28% (25%)
More than 10	14% (6%)
Median	4 managers (4)

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

Percentage that are passive managers	Average percentage of assets managed
21% (15%)	44% (40%)

Defined Contribution Schemes

Table 36

Investment choices offered by DC schemes

	Percentage Offering
UK Equity	96% (94%)
Overseas Equity	83% (86%)
Global Equity	96% (98%)
Gilts: Fixed interest	84% (82%)
Gilts: Indexed linked	84% (86%)
Corporate bonds	79% (74%)
Cash / deposit	84% (84%)
With profits	31% (47%)
Mixed managed fund	72% (76%)
Life-style / default	91% (79%)
Other	18% (8%)

Number offering a default fund

Yes	No
85% (79%)	**15%** (21%)

Is it a Life-style fund?

Yes	No
88%	12%

Estimated number of members invested in the default fund	84%

Table 37

Fund options offered to members

	Percentage
Under 5	13% (28%)
6 - 10	29% (31%)
Over 10	58% (41%)

Number of fund managers offered

	Percentage
Only one	38% (58%)
2 - 10	48% (32%)
Over 10	14% (10%)

Schemes offering a with-profits fund

Yes	No
30% (47%)	**70%** (53%)

Table 38

Defined contribution pension schemes place investment, inflation and longevity risks primarily with the individual. Do you feel most employees are comfortable with taking on these risks?

Yes	No
24%	76%

In terms of understanding the financial issues and risk involved, do you feel most of your employees are capable of determining how they should manage their defined contribution pension saving?

Yes	No
19%	81%

Table 39

Percentage of firms facilitating financial advice / retirement counselling services to members / employees

Yes	No
44% (68%)	**56%** (32%)

If 'yes', percentage where cost fully met by employer

Yes	No
69% (56%)	**31%** (44%)

Are retirees helped with their open market option prior to purchasing an annuity?

Yes, we provide a range of quotations	No, we leave to individual
43%	57%