ASSOCIATION OF ACA CONSULTING ACTUARIES

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NEWS RELEASE

ACA survey finds six out of ten employers are set to review their existing pension schemes ahead of 2012, but financial preparedness for the Government's reforms, that will impact on over 1 million employers, is still worryingly low...

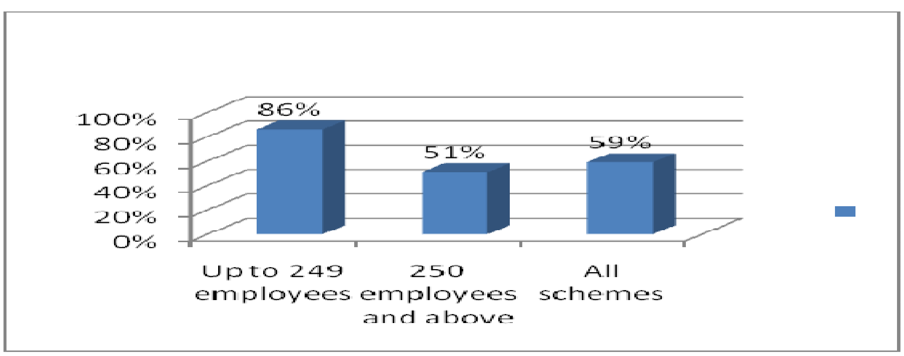
PENSIONS: ACA CALLS FOR DELAY IN INTRODUCING PERSONAL ACCOUNTS AND AUTO-ENROLMENT IF NEW 'MIDDLE WAY' PENSION REFORMS ARE NOT ALLOWED

Survey points to widespread disillusionment with Government's pension policies in support of quality schemes

24 September 2009: The second report of the Association of Consulting Actuaries' (ACA) survey on pension trends[1], published today, says 59 per cent of employers – including 86 per cent of smaller employers – are set to review their pension arrangements ahead of the introduction of auto-enrolment and personal accounts from 2012. Under the Government's pension reforms, from 2012, but subject to phasing rules as yet unspecified, over 1 million employers will be required to enrol all of their employees into a pension scheme that meets certain minimum criteria or sign them up to join the new national scheme of personal accounts[2].

The avalanche of reviews that the ACA survey predicts ahead of 2012 comes over and above the sweeping pension changes that have taken place over the last few years as employers have withdrawn from defined benefit provision[3] and, in some cases, from trust-based defined contribution schemes in favour of contract-based plans, often in an attempt to reduce regulatory costs and administration.

Figure 1: Will auto-enrolment and personal accounts lead employers to review their current scheme(s) ahead of 2012?



(Source: ACA 2009 Pension trends survey)

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[1] The survey, conducted by the Association of Consulting Actuaries (ACA), was carried out during June and July 2009. The survey was completed by 309 employers of all sizes, with pension scheme assets of over £138 billion. For further details see *2009 ACA Pension trends survey Report 2 – Pension Reform: a pig in a poke?* at www.aca.org.uk (Research or Publications page).
[2] For further details see www.padeliveryauthority.org.uk
[3] See Note to Editors: ACA Pension trends - Report 1

The survey found that 41 per cent of smaller employers[4] will consider closing their existing pension scheme in favour of offering just personal accounts to all employees and **54 per cent are likely to revise pension benefits to mitigate the costs if, instead, they auto-enrol all employees into an existing scheme.** As most UK pension schemes are run by smaller employers – 90 per cent of UK schemes have fewer than 100 members – the scale of such a potential change in workplace pension provision is huge, not least in terms of the likely loss of superior pension benefits for very many employees of smaller businesses.

The scale of pension changes may be even greater, as **the survey found that to date only a third of all employers have budgeted for the increased costs arising from the reforms, and just 16 per cent of smaller employers**. The extra costs are likely to come in the shape of auto-enrolment into existing schemes, whereby higher membership of an existing scheme, if offered, will involve additional employer contributions. Many existing schemes have participation rates below 60 per cent at present. Or they will come by way of employer contributions into personal accounts for all those employees who are not presently offered entry into an existing workplace scheme and who decide not to 'opt out' in 2012. For the vast majority of smaller employers who do not presently offer workplace schemes, the cost increases could be particularly significant, albeit phasing in of contributions is likely to spread this increase in costs over a number of years. The ACA survey found that compared to two years ago, **far fewer employers expect to be able to meet the extra costs of auto-enrolment and personal accounts by increasing prices to their customers – just 7 per cent now, compared to 26 per cent in 2007.**

Looking beyond the present Government's reforms, **73 per cent of employers support 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 in retirement), retirees should not be constrained as to how they invest or use their pension savings.**

However, employers are much less enthusiastic about proposals to allow scheme members to access accrued pension savings ahead of retirement to meet major lifetime events such as the need for home deposits, children's education and sudden illness. **56 per cent of employers oppose this greater flexibility to draw on pension savings early**.

Whilst the Government would argue that there is an ongoing deregulation exercise underway to simplify pensions, employers seem to be dissatisfied with the outcome to date. As with the ACA survey two years ago, **deregulation and simplification remain the top priorities for employers in terms of changes to Government pension policies**. Employers see **better financial incentives to encourage pension saving and/or the reversal of the 1997 tax change withdrawing ACT relief, as the second highest pension policy priority** followed by the **reversal of the Chancellor's 2009 Budget cap on pension tax relief for those on higher incomes**, which many believe will be dreadfully complex to administer fairly.

A major change over the last two years has been employers' perception as to whether the Government's stated policy in support of quality workplace pensions is working. Whereas close to four out of ten employers gave the benefit of the doubt to the Government two years ago, **now just 6 per cent of employers feel the Government's policy of supporting quality workplace pensions is working**.

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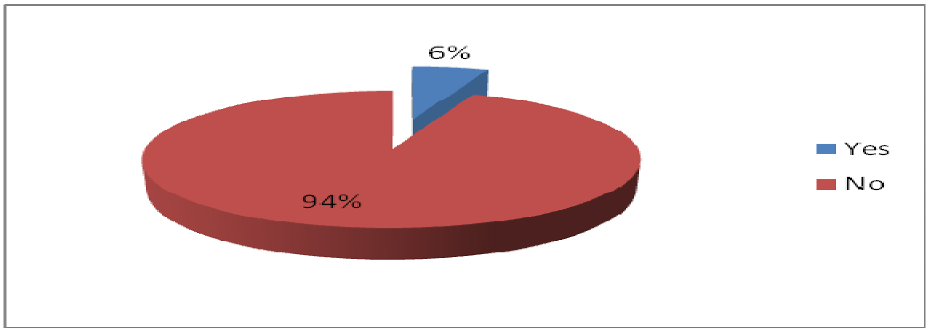
[4] Throughout, smaller employers are defined as those with 249 or fewer employees

Figure 2: Is the Government's stated policy of supporting quality workplace pensions working?



Commenting on the survey results, **ACA Chairman**, **Keith Barton**, said:

"This latest report drawn from our 2009 survey results reveals the absence of 'joined-up' policies for pensions. Whilst we support the Government's ambition to encourage wider pension coverage through auto-enrolment and personal accounts, the survey highlights the complete absence of a coherent plan to support existing quality schemes. The message is clear - good schemes are falling under threat from these well-intentioned reforms. This will mean an increasing number of employees currently in good schemes, and those joining from 2012, are set to receive pensions that fall far short of their needs.

"This is why we and others have called for legislative changes to allow new 'middle way' pension designs to prosper, to give employers new options well ahead of 2012 to provide or to continue to provide quality schemes, but schemes where employers' costs can be capped when economic and demographic changes occur. Those changes must be introduced well ahead of 2012, ideally in 2010 or 2011 at the latest. These schemes can be designed to continue to protect members' pensions in the event of employer insolvency, which, we appreciate, is an important ongoing requirement.

"If these 'middle way' reforms are not signposted soon, then we must call for a delay in the reforms introducing auto-enrolment and personal accounts. These reforms should only be enacted after employers have had the opportunity to introduce new 'middle way' designs to allow quality pensions to continue and thrive. The stated policy of Government and Opposition parties is that the 2012 reforms should not undermine quality existing provision – our survey has found that this is not what the surveyed population say is happening. Indeed, given the significant decline in overall confidence in Government policy, the picture is particularly worrying. Delay may be wise too for other reasons. The reforms are much more likely to achieve their desired results if they are introduced at a time of rising incomes and/or reducing taxes on employers and employees. It looks like the exact opposite situation is more likely.

"And, certainly, whoever wins the election next year needs to make a statement shortly thereafter whether the reforms will go ahead in 2012 or at a later date, and what other reforms are being considered for early legislation."

The ACA's ***2009 Pension trends survey Report 2 – Pension reform: a pig in a poke?*** is available at www.aca.org.uk on the **'Latest publications'** and **'Research'** pages. Printed copies of the report are available from the ACA, St Clement's House, 27-28 Clement's Lane, London EC4N 7AE or call 020 3207 9380.

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***Note to Editors**:*

About the Association of Consulting Actuaries (ACA)

The **Association of Consulting Actuaries (ACA)** is the representative body for consulting actuaries, whilst the Faculty and Institute of Actuaries are the professional bodies. The ACA has over 1750 members working in around 75 firms. ACA Members are all qualified actuaries and are subject to the code of professional conduct of the Faculty and the Institute of Actuaries. Advice given to clients is independent and impartial. The ACA forms the largest national grouping of consulting actuaries in the World.

ACA Pension trends – Report 1

The first report of the *2009 Pension trends survey* (see: www.aca.org.uk 'research' or 'publications' pages), published in early September 2009, included the following findings:

- **87 per cent of defined benefit schemes are closed to new entrants, of which 18 per cent are closed to future accrual**. 39 per cent of defined benefit schemes are presently considering changes to future accrual.

- **76 per cent of employers felt their employees were uncomfortable in taking on the investment, inflation and longevity risks inherent with defined contribution schemes**. An even higher percentage – 81 per cent – felt employees were not capable of determining how they should manage defined contribution saving.

- **77 per cent of employers said that present legislation did not allow them to easily share investment, inflation and longevity risks with employees. A similar number (76 per cent) said public policy should be more supportive of 'middle way' pension designs** – designs that would free up the way employers offer pensions to employees. 'Middle way' designs would enable employers to hold down pension costs by, for example, holding back or removing compulsory indexation of benefits, whilst continuing to provide the greater stability and certainty of benefits that accrue under defined benefit arrangements.