ASSOCIATION OF ACA CONSULTING ACTUARIES

Over a million businesses have a duty to auto-enrol their employees into a workplace pension scheme between 2014-2017, most of these in a two-year window between June 2015-2017, when at its peak upwards of 50,000 employers will have a duty to register their scheme every month...

AUTO-ENROLMENT: MAJOR SURVEY OF PENSIONS IN SMALLER FIRMS HIGHLIGHTS HUGE TASKS AHEAD FOR PENSIONS INDUSTRY AND COMPLIANCE REGIME

15 October 2012 – A major survey of pension trends in smaller firms with 250 or fewer employees, published today, has found most are unprepared, unclear about what to do and unaware of the new duties placed upon them. Only 28% have budgeted to date for the cost of auto-enrolling their employees (those that are 'eligible jobholders'[1]) into a workplace pension scheme. Those that have budgeted expect employee opt-out rates from schemes ranging in the main between 11 – 35%, with the highest opt-out rates in the smallest firms. Fewer than 1 in 5 firms are aware of the detail of the auto-enrolment regulatory regime, guidance and employers' duties. Of those that are aware of the regulatory regime, 53% said it appears 'complex' and 23% 'very complex'.

These are a few of the main findings of ***A million challenges ahead***, the first report of the ***ACA 2012 Smaller Firms' Pensions Survey*** conducted by the **Association of Consulting Actuaries (ACA)**. Other key findings include**:**

- **Of those firms with a current pension scheme, a half are likely to auto-enrol all employees into an existing scheme – although many more are unsure what they will do compared to 2 years ago (27% as opposed to 9%). 1 in 10 will consider auto-enrolling into a new workplace scheme with a further one in ten restricting entry and placing the balance of employees in NEST. Only 4% will close their existing scheme and place all employees in NEST.**
- **Over 4 out of 10 firms who presently offer no pension scheme[2] remain unsure about what they will do when they auto-enrol employees into pensions. 38% expect to auto-enrol all employees into NEST, with 19% looking to enrol into an employer's scheme.**

[1] A jobholder who is aged between 16 and State pension age with qualifying earnings above the earnings trigger for auto-enrolment (£8,105pa in 2012/13).

[2] Presently across the UK as a whole, around 75% of smaller firms (rising to 85% of those employing 5 or fewer employees) provide no workplace pension scheme.

The ACA survey gathered responses from 541 smaller employers with 250 or fewer employees. There are over 1.2 million of these smaller firms which employ over half of the UK's private sector employees (59%) and generate a half of all private sector turnover (49%), amounting to £1,500 billion per year. They make up 99% of all private sector enterprises.

At present, three-quarters of the UK's smaller firms offer no pension scheme, but all will be required to auto-enrol their employees (those who are 'eligible jobholders') into an 'auto-enrolment scheme'[3] under the Government's pension reforms between 2014 and 2017 – with some newer firms auto-enrolling into early 2018. Minimum pension contributions are being phased in, but by October 2018 these contributions must be 8% of employee 'band earnings'[4], with a minimum of 3% from the employer plus 4% from the employee (and 1% by way of tax relief). All 'eligible jobholders' will first be auto-enrolled, but have the right to opt-out, which also removes the employer's need to contribute. Those that opt-out will then be re-enrolled in 3 years time.

The survey also found that whilst at present these smaller firms report nine out of ten (male) employees are retiring at age 65 or younger, **by 2020 two-thirds expect employees (both men and women) typically to retire at age 67 or above**. **By 2028, over a half expect the typical retirement age to be age 68 or older, with over a quarter retiring at age 70 or above.** In short, typical retirement ages are expected to out-pace the increases in the State Pension Age.

Another finding was that even amongst these smaller firms there are clear concerns about the pension risks being shouldered by employees and their ability to cope with them. **Broadly only a third of firms say individuals should shoulder all of the 'investment', 'longevity' and 'inflation' risks associated with pensions. Around four out of ten firms say employers should share or take on the majority of these risks**.

Commenting on the survey results, **ACA Chairman, Andrew Vaughan** said:

"At present and through 2013 the pressures on employers are significant, but with the duties applying to larger employers in these early stages, many already used to the complexities of UK pensions, we trust the new regime will cope with the pressures.

---

[3] A pension scheme that meets or exceeds certain legal standards, including minimum pension contributions.

[4] In 2012/13, pension contributions are paid on band earnings between £5,564pa and £42,475pa, provided 'eligible jobholders' earn above £8,105pa.

"But in a 3-year period from mid-2014, over 1 million SMEs will have to meet the auto-enrolment challenge, three-quarters with 4 or fewer employees.

"Yes, it is right that pension provision should be available to employees in even the smallest firms, but we do question whether the auto-enrolment rules are overly complex for businesses of this size and whether the strains of the staging timetable by 2015/18 look too rigorous. We also wonder whether the pensions industry has fully taken on board how it will market appropriate pension schemes to so many SMEs, the vast majority of which have no provision in place at all at present.

"One possibility might be the establishment of an approved panel of advisers who are geared up to provide cost effective advice on auto-enrolment to SMEs.

"Let us also hope the economic situation and the public's perception of the benefits of pension savings will improve during the staging period, otherwise the feedback from our survey suggests that concerns over both cost and disillusionment with pensions may prompt high opt-out rates.

"Our survey found many employers even in the SME sector do not feel their employees should be exposed to 100% of pension risks. Reflecting this, employers need to consider if and how they can help to share risks with employees. And Government, by removing legislative constraints, as well as those of us in the pensions industry must play our part by making sure pension designs offer effective governance, at a scale allowing members to benefit from good value and with options that mean both employers and employees have confidence in the schemes that are used and a feeling of greater certainty that the pension outcomes will be worthwhile."

The ACA *2012 Smaller Firms' Pensions Survey* report is available at www.aca.org.uk (see: recent publications)

For further details:	Andrew Vaughan – general comment	020 7776 2200
	Steve Leake – general comment	01483 540 300
	David Robertson – survey results	020 3207 9380 (M: 07919 911380)

About the Association of Consulting Actuaries (ACA)

The **Association of Consulting Actuaries (ACA)** is the representative body for consulting actuaries, whilst the Institute and Faculty of Actuaries is the professional body. The ACA has 1,750 members working in around 75 firms. ACA Members are all qualified actuaries and all actuarial advice given by members is subject to the Actuaries' Code. The ACA forms the largest national grouping of consulting actuaries in the world.

Appendix: Other findings from the *2012 ACA Smaller Firms Pensions Survey* include:

Pension trends and auto-enrolment

- **Across most types of schemes, membership participation is below 60% and is generally down on levels reported two years ago.**

- **Over the last 3 years, 8% of firms say the number of employees leaving schemes has 'increased significantly' with 21% reporting 'marginal' reductions. Set against this, 14% of employers report higher levels of scheme membership.**

- **These small firms said that employees did not join their schemes mainly because of cost (94%, up 10 points on 2 years ago) with 80% (up 11 points on 2 years ago) also not joining because firms felt employees were 'disillusioned with pensions'.**

- **Almost all (96%) of the smaller firms without a scheme said 'cost' was the main reason they did not provide a pension at present.**

- **A quarter of firms say they will be reviewing their pension arrangements in the next year, with a further 30% set to review schemes, but over a year away.**

- **Whilst four out of ten smaller firms say they have no target as to what their pension costs are (unchanged from 2 years ago), it is encouraging that 37% are targeting employer pension costs of 4% of payroll or more.**

- **10% of smaller firms (down 11 points on 2 years ago) are looking to decrease their pension spend, balanced by 9% aiming to increase spend (down 5 points on 2 years ago).**

- **Two-thirds of these smaller employers (three-quarters of the smallest) have not checked whether their existing schemes comply with the minimum standard to be a qualifying scheme under the auto-enrolment regulations. Where employers have checked, over 40% have found that their schemes will need to be amended to fully comply with the qualifying standards.**

- **Those advisers that firms will principally rely upon for auto-enrolment are IFAs (31%), specialist pension consultants (29%), administrators (16%) and accountants (11%).**

- **A majority of these smaller firms say they would have preferred the implementation of auto-enrolment to be delayed until consistent economic growth returns (57%) and there are general increases in real incomes (58%). Only 37% of firms said that auto-enrolment should await legislation that allows greater freedom in pension design.**

Other pension reforms

- **Three-quarters of firms (73%) favour a requirement that, on leaving a job, employees transfer their accumulated fund into a central pot identified by the individual.**

- **Firms are divided evenly on whether the State Pension Age in the future should be automatically adjusted to reflect general improvements in longevity (49%) or whether this should be left to an independent non-governmental body (51%) to make recommendations.**

- **61% of firms said that private schemes should be given a statutory override to enable them to adjust pension age for future service only (27%) or for both future and accrued pensions (34%). 55% of firms said the changes should mirror movements in the SPA, with 36% favouring the recommendations of a standing commission that monitors improvements in longevity.**