ASSOCIATION OF ACA CONSULTING ACTUARIES

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Survey finds little enthusiasm for further pension tax reforms…Schemes haemorrhaging higher earners due to tax changes and complexities…1 in 5 defined benefit schemes set to close…

RESULTS OF MAJOR SURVEY UNDERSCORE HUGE CHALLENGES IN ENCOURAGING HIGHER PENSION SAVING

1 February 2016: The key findings of a major survey undertaken by the Association of Consulting Actuaries (ACA) underscore the huge challenges the Government still has to address in its stated strategy of encouraging increased pension savings. The Chancellor has said that the outcome of his much awaited review of pension tax relief must boost pension savings, but the ACA survey has found that the string of reductions in tax relief in recent years has caused schemes to haemorrhage members on higher incomes and there is little support for the ISA-type pension tax reform, whereby the present up-front relief is lost in favour of a tax-free pension. The April 2016 demise of defined benefit scheme contracting-out is also likely to increase the pace of scheme closures to future accrual in the private sector, with many employers postponing the rationalisation of their schemes because of issues like the uncertainty over what the policy on tax relief will be going forward.

The ACA survey of 477 employers sponsoring over 620 schemes found:

81% of employers are concerned at the level of pension spending they are incurring with 43% looking to target 6% or less of payroll on pensions.

31% of employers say the reduction in tax relief and complexities of the regime have caused employees on higher incomes to leave their schemes(s).

13% of employers say that if pensions were taxed like ISAs, with a top-up from Government during accumulation, that this would boost pension saving.

20% of employers running defined benefit schemes at present open to future accrual say they will close their scheme following contracting-out ending in April 2016.

82% of employers expect that by 2020 – just 4 years away – the typical retirement age of employees will be age 66-67. By 2028, over a third expect the typical age to rise to age 68-69.

85% of employers say the Government should set up an Independent Pensions Commission to make periodic recommendations on pension policies to ensure these are cost effective and sustainable for employers, members and Government.

An initial report (see *Note for Editors*) on the survey findings, published in October 2015, revealed that:

- Where employers have staged for auto-enrolment, pension contributions into NEST and other multi-employer arrangements are low with many employers and employees contributing at the minimum initial auto-enrolment level, which is below 1% of total earnings.
- However, 46% of employers were prepared to see minimum contributions rise to 4% from employers and 5% from employees or higher from 2020.
- Only 36% of small and micro-employers are budgeting for the likely increase in costs arising from auto-enrolment.
- Smaller employers (with up to 49 employees) forecast opt-out rates by employees from auto-enrolment into a workplace scheme would rise to between 16% - 20%.

Commenting on the survey results, **ACA Chairman, David Fairs** said:

"In assessing the challenges ahead, we believe the Government needs to have a joined-up strategy ready to address the potential danger of rising opt-outs as employers – particularly small and micro-employers – and their employees react to the increase in minimum contributions in now April 2018 and 2019. For the majority of employers this is still shortly after their staging date for auto-enrolment and lands in the middle of sizeable projected increases in the 'living wage'. And, importantly, as this report points out, there needs to be a great deal of care taken before further pension tax changes are made – any reform must genuinely simplify the regime for both employers and employees and, above all, must genuinely incentivise pension saving as opposed to simply raising tax revenues.

"Whilst much of the recent debate about pensions has dwelt on legitimate desires to drive down charges and to free-up pension monies by way of the popular 'freedom and choice' reforms, our survey points to the greater need that looks to a gradual, but essential increase in minimum pension contributions. A gradual move up to combined minimum contributions of between 14-16% should be the target. This is needed to ensure that many more retirees save sufficient amounts for both a comfortable retirement income and one where they have real choices to spend some of their accumulated savings as they approach or reach retirement.

"We must have the ambition to 'pull together' to convince employers and employees alike to save more to improve retirement incomes, particularly for those in receipt of lower workplace incomes, with the Government reviewing in a joined-up way its pension strategy, spending plans, tax policies and incentives to help make this happen."

Other survey findings reported today include:

78% of employers would support 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'.

70% of employers either support or see value in the Government encouraging employers with small defined contribution arrangements to merge into larger multi-employer schemes.

69% say the Government should facilitate and encourage the development of large collective schemes where investment, inflation and longevity risks might be shared between members and employers.

The Final Report of the ***ACA 2015/16 Pension trends survey*** is available at www.aca.org.uk (see 'research and surveys' page).

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Note for Editors

The initial report on the survey focused on findings in respect of auto-enrolment and pension contributions. The report, *Time to get real*, was published on 12 October 2015, and is available at www.aca.org.uk (see 'research and surveys' page).

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 and is a member of the International Actuarial Association.