



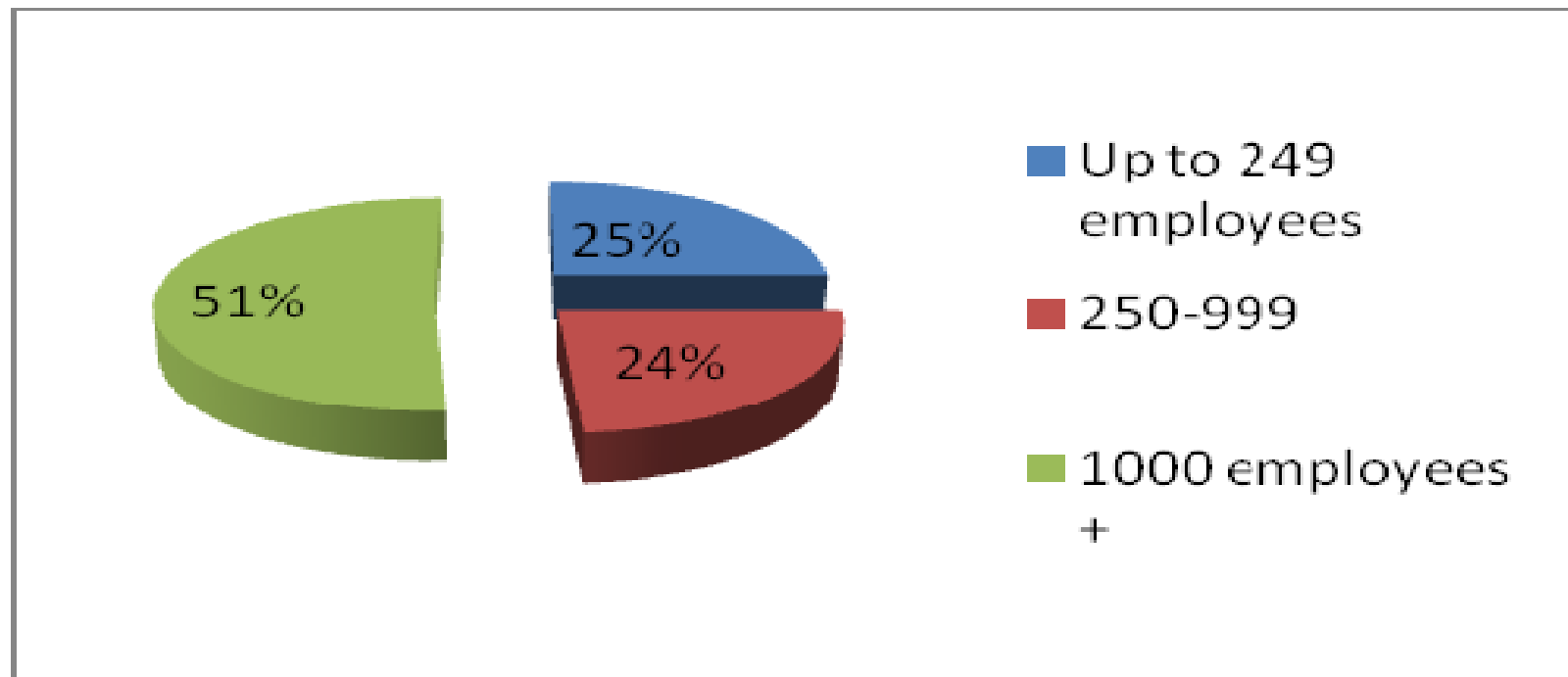
2009 Pension trends survey
Andrew Vaughan
5 October 2009

2009 ACA Pension trends survey

- Conducted in June/July 2009
- Questionnaire sent to random sample of 5,000 employers of all sizes
- 309 employers responded
- Biennial survey (alternates with smaller firms survey) started in 2003
- Two reports published – final report in December

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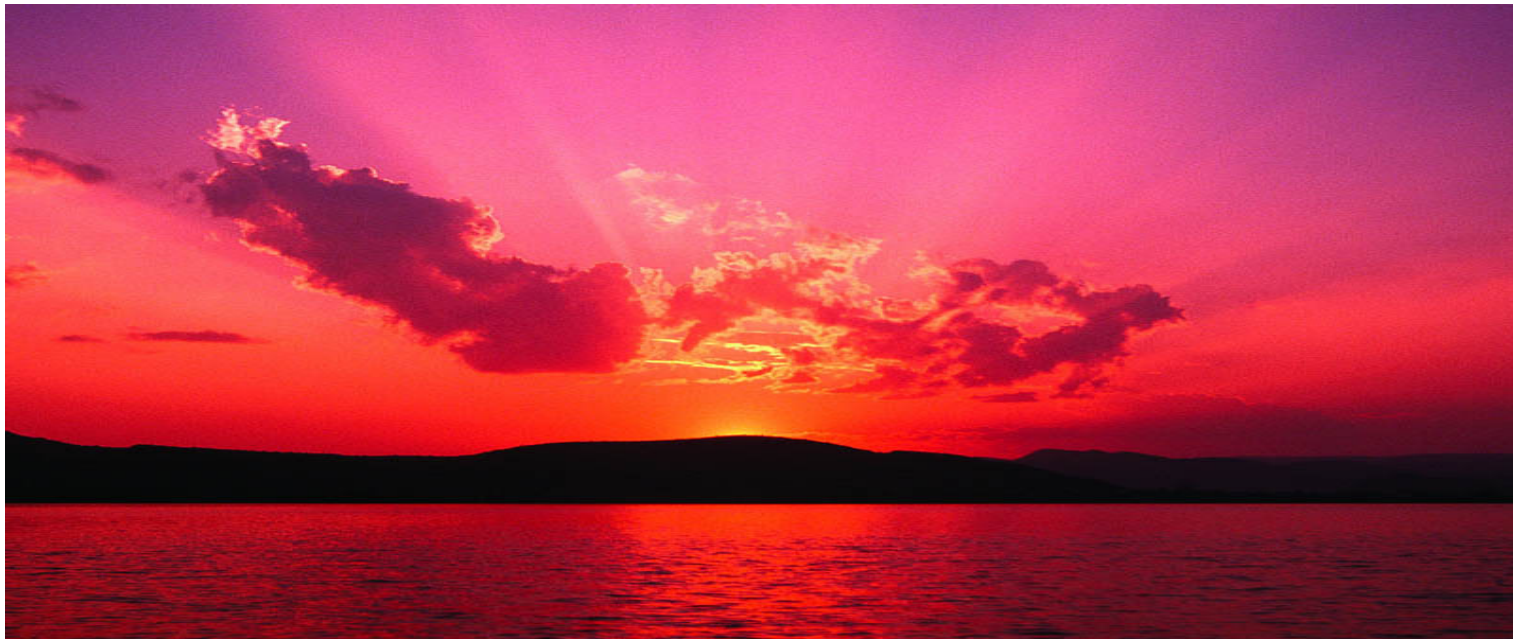
Respondents: by size of employers



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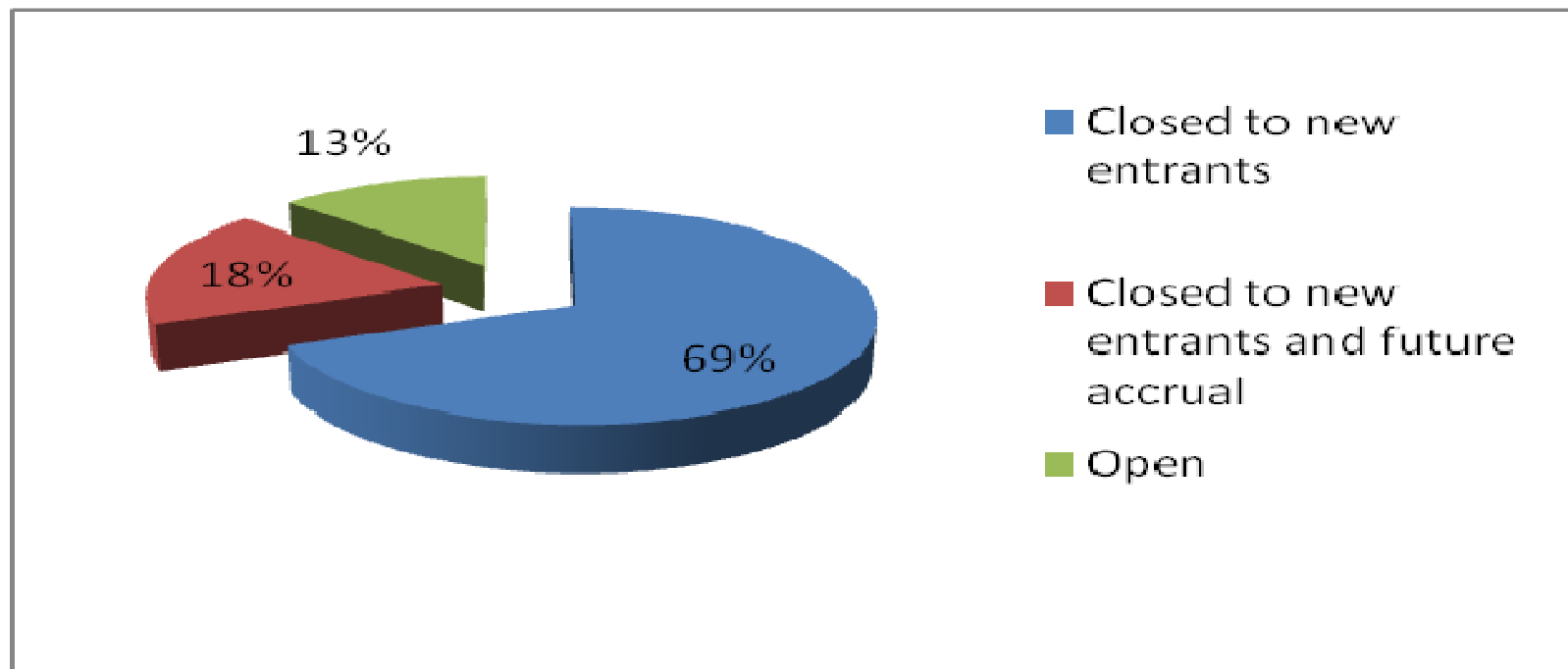
Report 1

Twilight or a new dawn for DB Schemes?



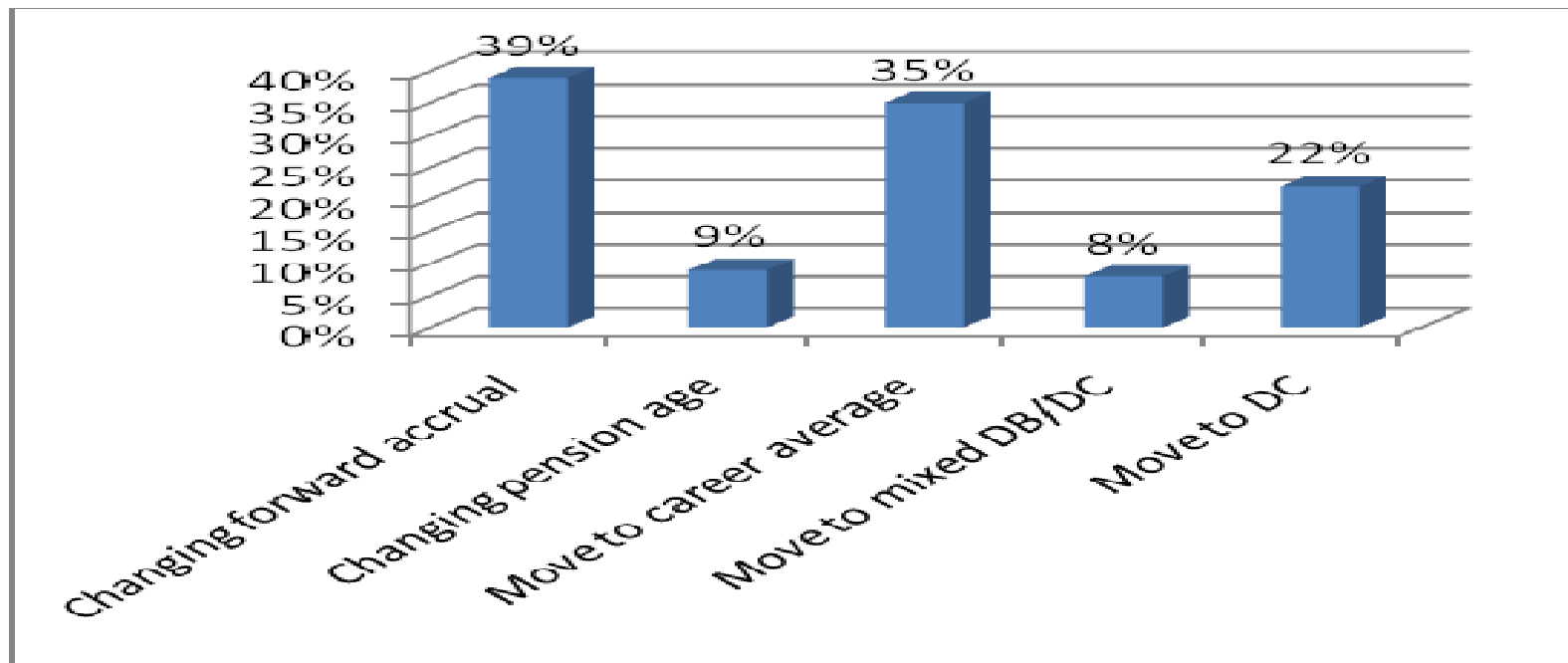
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Status of defined benefit schemes



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- 34 per cent of DB schemes under review
- 39 per cent considering future accrual change



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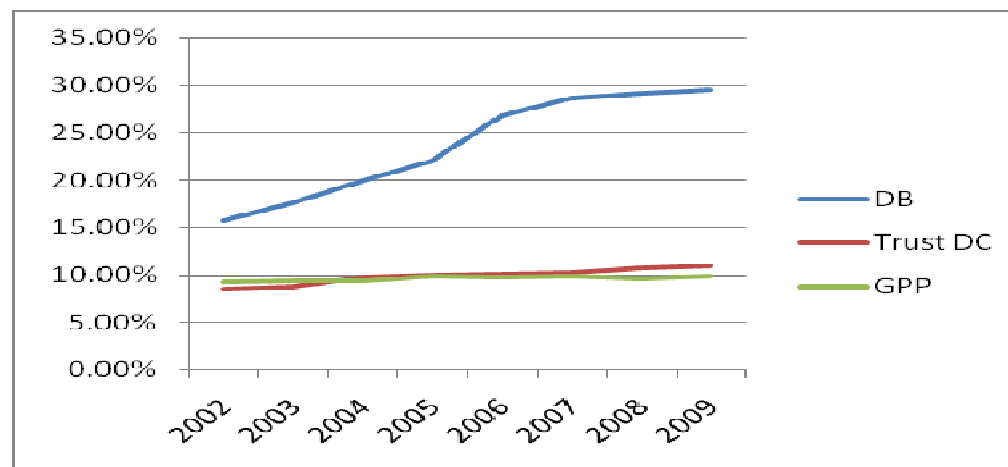
Pension Contributions – DB

- Average DB employer contributions - 23% of earnings
- 6 out of 10 employers increased DB contributions for future service
- Half employers made significant lump sum contributions and/or additional monthly contributions
- Average DB employee contributions – 7% of earnings
- 4 out of 10 employees seen increased DB contributions
- Combined contributions 30% of earnings

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Pension Contributions - DC

- Average DC employer contributions – 4 - 7% of earnings
- Average DC employee contributions – 4 - 6% of earnings
- Combined contributions 9 - 11% of earnings
(up just 1 – 2% since 2002)



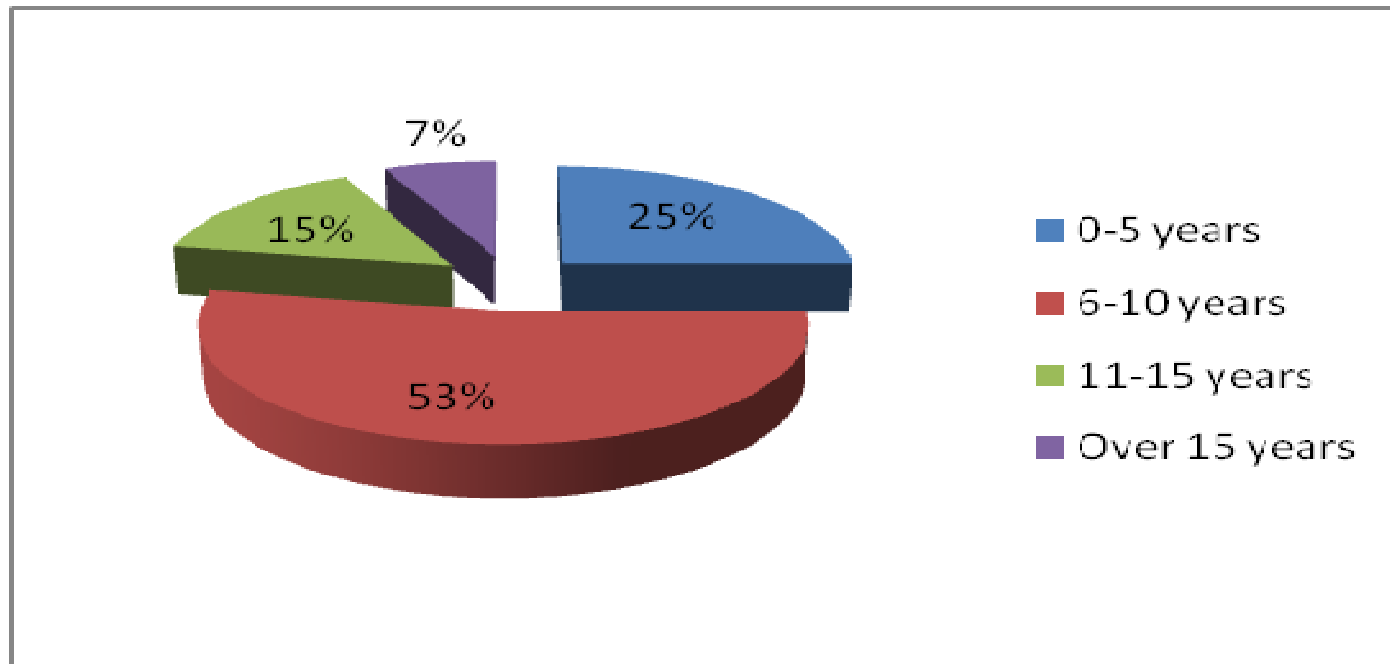
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DB scheme deficits

- 9 out of 10 schemes in deficit
- Average ongoing funding level at last actuarial assessment – 79 per cent (8 points down on 2007)
- 4 out of 10 schemes reported an ongoing funding level of 85 per cent or below (10 points down on 2007)
- But, only 22 per cent reported a recovery period of over 10 years (down from 29 per cent, 2 years ago)

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DB recovery periods



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Middle way pension designs: a new dawn?

- 77 per cent of employers said present legislation did not allow them to easily share investment, inflation and longevity risks
- 76 per cent said public policy should be more supportive of 'middle way' pension designs
- 51 per cent would consider a 'middle way' design if legislation was changed to make this easier

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Discomfort with defined contribution

- 76 per cent of employers felt their employees were uncomfortable in taking on investment, inflation and longevity risks
- 81 per cent felt employees were not capable of determining how they should manage their defined contribution saving

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Report 2

Pension Reform: a pig in a poke?



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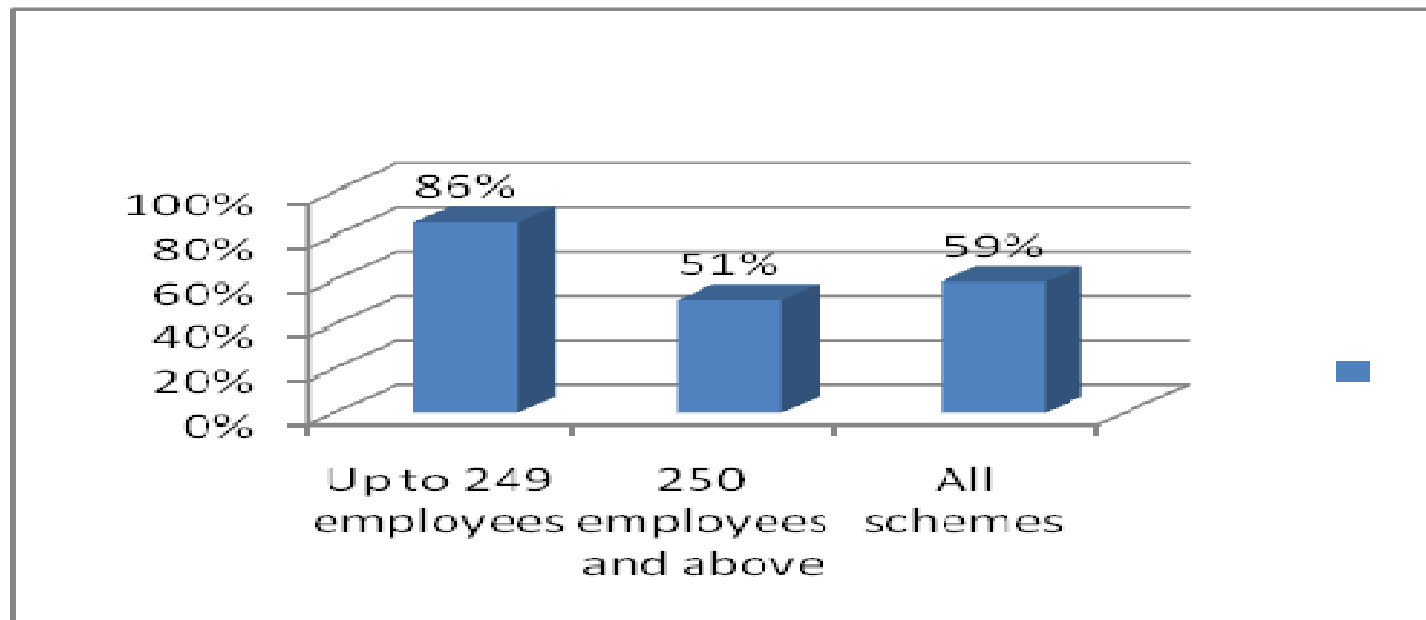
Personal Accounts and Auto-enrolment

- New regime will impact on over 1.2 million employers with 1 employee or more
- Will be introduced in 2012, but phased in over period to 2016 after latest Government announcement
- Survey found just 32 per cent of employers have budgeted for cost of changes – only 16 per cent of smaller firms (up to 249 employees) have
- Over 90 per cent of pension schemes are run by smaller firms

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Personal Accounts and Auto-enrolment

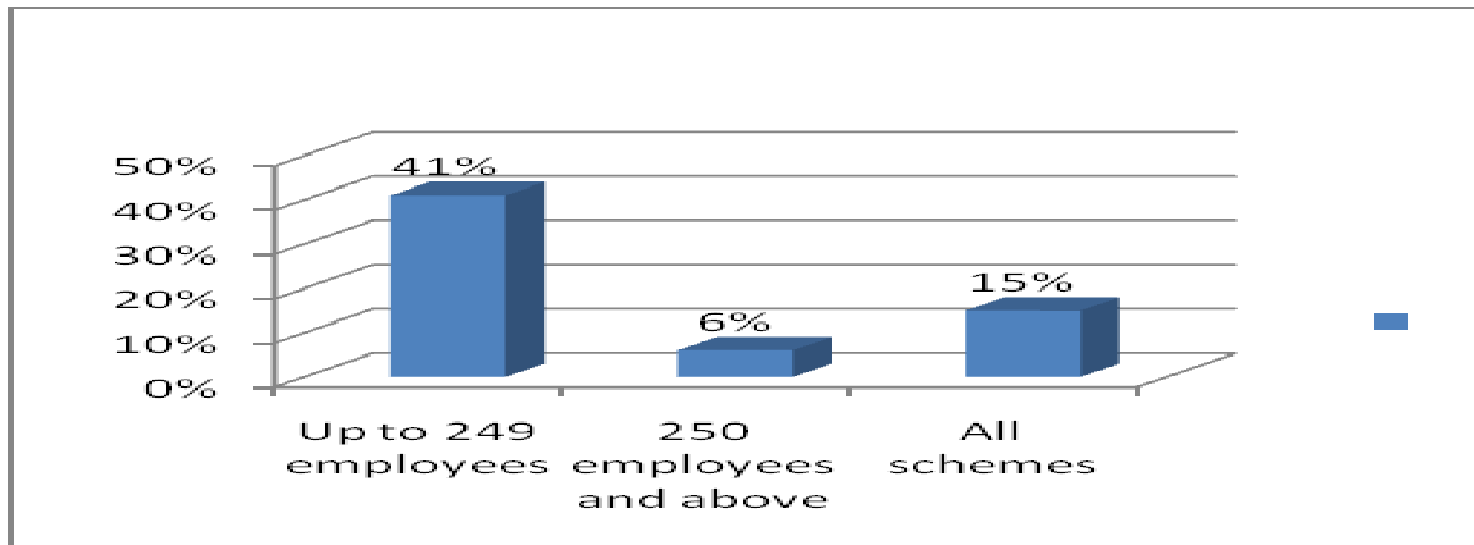
Employers saying they will review pensions ahead of 2012



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Personal Accounts and Auto-enrolment

Employers considering closing existing schemes in favour of personal accounts in run up to 2012



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Personal Accounts and Auto-enrolment

If employers auto-enrol into existing schemes, are they likely to revise benefits to mitigate cost of additional members?



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Personal Accounts and Auto-enrolment

- 59 per cent of employers say they will auto-enrol ahead of 2012 (but puzzling only 32 per cent have budgeted for this)
- 28 per cent say they will restrict entry to existing scheme (of these two-thirds will do so by employment group)
- Where have budgeted, employers on average expect a 4 per cent increase in payroll costs
- Only 7 per cent of employers expect to meet extra pension costs by increasing prices to customers

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Pension reform beyond personal accounts

- 73 per cent support retirees having unconstrained pension investment choice above buying a basic annuity that removes claim on State benefits
- 56 per cent oppose greater flexibility to draw on pension savings early for house deposits, education costs etc

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Pension reform beyond personal accounts

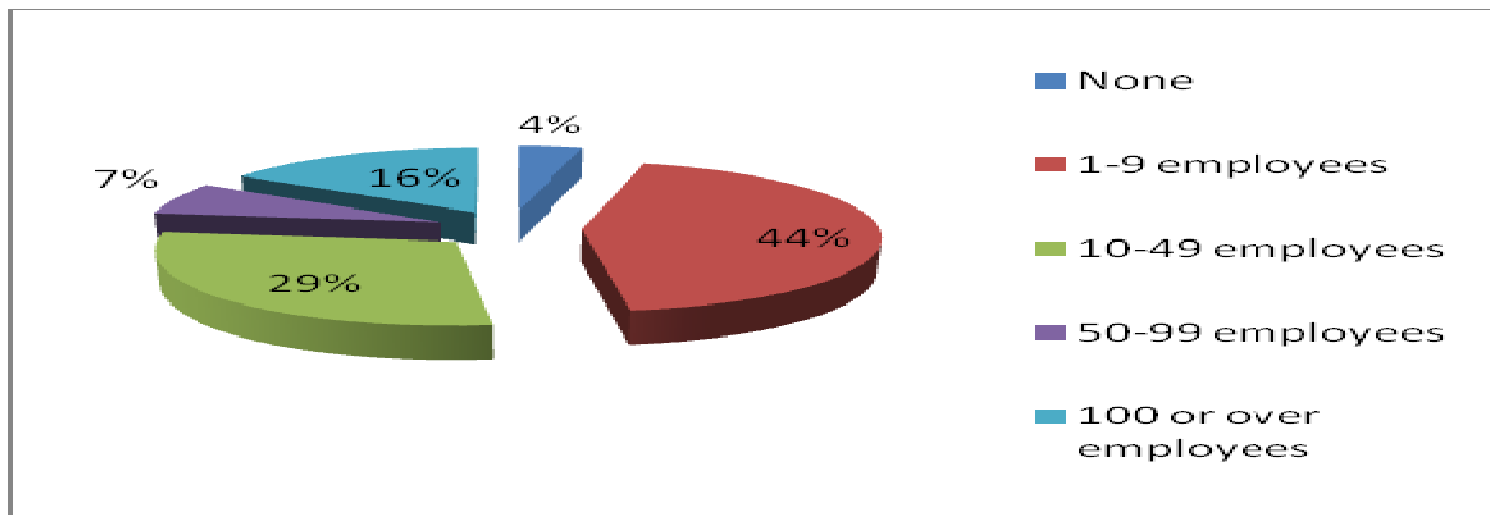
Most important policy changes – ranked

1. Deregulate/simplify pensions
2. Better financial incentives for pensions/reverse ACT change
3. Reverse 2009 Budget pension tax changes
4. Close private/public sector pensions gap
5. Improve BSP

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Pension reform beyond personal accounts

Impact of 2009 Budget pension tax relief cap:
by number of employees affected
(employers with 250 employees or more)

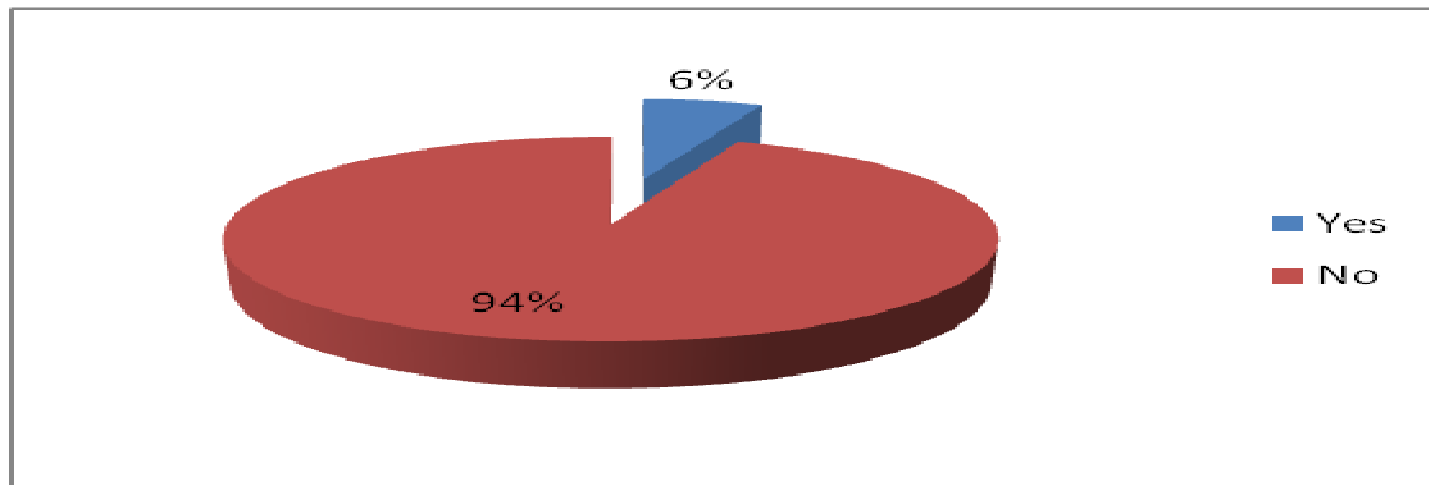


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Pension reform beyond personal accounts

Is Government's stated policy of supporting quality workplace pensions working?

(38 per cent said 'yes' in 2007)



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Conclusions and challenges

- Personal accounts and auto-enrolment are impacting on existing schemes...not just 'filling the gap'
- More employers need to start looking at the costs, but...
- Without more flexibility in pension designs available ahead of 2012 reforms there will be further levelling down
- On the basis that there is no more flexibility introduced by legislation, some employers may be interested in pursuing cost effective designs beyond pure DC under current legislation

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Conclusions and challenges...continued

- Personal accounts design is often not suited to replace existing provision (restricted to band earnings/no life cover/transfer restrictions)
- Pensions will be an election issue...parties need to respond to gulf between public/private pensions
- ACA (and others) continuing to call for more design flexibility ahead of implementation of PAs/auto-enrolment
- Government has announced delayed implementation of reforms, but resistant to changes to boost design flexibility (HM Opposition seems more interested)