NEWS RELEASE

EMBARGO ON PUBLICATION UNTIL 1 SEPTEMBER 2009

Most defined benefit schemes are now closed to new entrants and existing members are increasingly likely to see their future benefits reduced. The latest ACA survey, however, found strong support for legislation to allow new 'middle way' designs...

ACA SURVEY FINDS CLOSE TO NINE OUT OF TEN DEFINED BENEFIT SCHEMES NOW CLOSED, BUT WIDESPREAD UNEASE WITH THE PRESENT PENSION ALTERNATIVE

27 August 2009: The first report of the Association of Consulting Actuaries' (ACA) survey on pension trends[1], published today (1 September 2009), has found 87 per cent of defined benefit schemes are now closed to new entrants of which 18 per cent are also closed to future accrual. But pension changes continue unabated, with a third of defined benefit schemes still subject to review with the latest changes likely to impact on existing members. Employers responding to the survey said 39 per cent of defined benefit schemes were presently considering changes to future accrual, with 35 per cent considering a move to career average and 22 per cent a move to defined contribution – changes that will now impact mainly on existing employees.

The ACA survey found, however, that **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.

Reflecting this concern, **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.

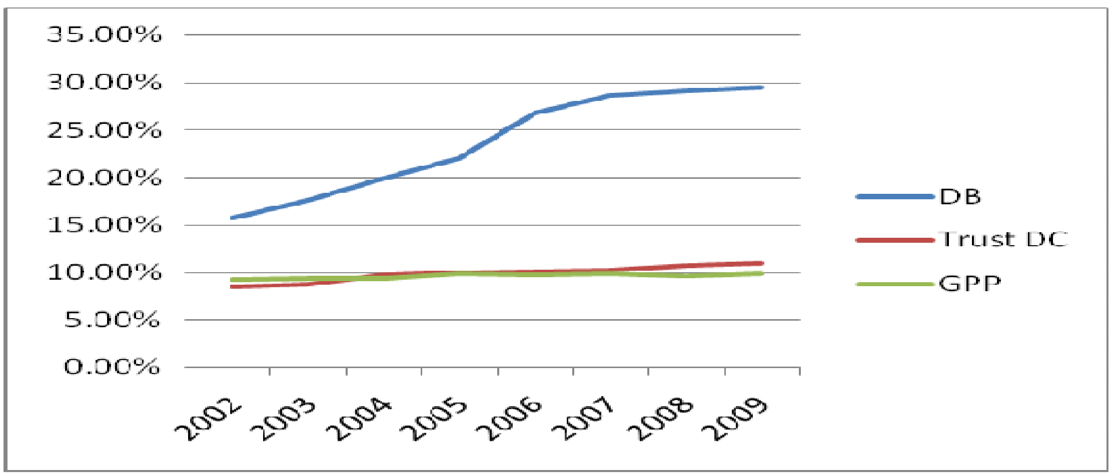
---

[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 1*at www.aca.org.uk (Publications).

The ACA series of pension trend surveys, which has monitored changes in pension contributions since 2002, found **combined employer and employee contributions into defined benefit schemes now average 29.5 per cent of total earnings, not far short of double those found in 2002** (when combined contributions averaged 15.8 per cent of earnings).

However, **combined savings into defined contribution schemes are running at around one-third of this level at around 10 – 11 per cent of earnings**, having only marginally increased over the period since 2002 (by, on average, 1.5 per cent of earnings at best). **Given the decline in investment returns and lower annuity rates (in part driven by longevity improvements) over the period, average pension outcomes from defined contribution schemes have weakened considerably**.

Figure 1: Trends in employer and employee pension contributions: as a percentage of earnings



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

"This latest survey confirms all our worst fears about the loss of quality pension schemes and how this is now moving on to a phase where future benefits for existing members are likely to be pinned back as employers struggle to hold down costs within existing legislation.

"It is very clear from the survey that employers do not think employees want to take on the risks inherent with defined contribution. If we are to preserve as much private sector defined benefit provision as possible then the Government must act during 2010 to free up pension designs, so employers can better control defined benefit costs whilst continuing to provide a more stable pension outcome than is possible with defined contribution.

"The present Government's latest 'concession' indicating a willingness to deregulate only if defined benefit schemes are kept open is not the right approach. Reforms to free up designs, provided these protect the position of members in the event of employer insolvency, must come without duress and employers should then be able to choose the design most appropriate to them for recruiting and retaining quality employees.

"If the legislative reforms to free up existing designs are not in place well ahead of auto-enrolment and personal accounts, both due in 2012, then the vast majority of employers reviewing their present arrangements ahead of these changes will have no option but to choose within the limited range of designs that are presently available and workable. Inevitably, this will mean a further major move towards defined contribution, despite the very clear reservations our survey found with such a change. However, if Government can wake up to reality, there are signs that many employers are prepared to look at pension designs that best suit their business needs, always providing these offer the essential flexibility that allows costs to be held down as economic and demographic changes occur."

The *2009 ACA Pension trends survey,* collected responses from over 309 employers of all sizes, with total scheme assets exceeding £138 billion. Other findings featured in the first report are as follows:

- **nine out of ten defined benefit schemes are in deficit**
  average ongoing funding levels at their last actuarial assessments were 79 per cent, 8 points down on two-years ago.

- **recovery periods improve**
  compared to two-years ago, only 22 per cent of employers (as against 29 per cent) said their anticipated deficit recovery period was over 10 years. However, the pace of economic recovery may test whether this trend can be maintained.

The ACA's ***2009 Pension trends survey Report 1*** 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.

For further details:	Keith Barton	01727 888642 (M: 07961 021205)
	Steve Leake	01483 540300 (M: 07796 308117)
	David Robertson	020 3207 9380 (M: 0791 9911380)

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.