

EXECUTIVE SUMMARY

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Our 42nd Annual Survey provides a unique snapshot of workplace pension provision in the UK's largest private and funded public sector schemes. Throughout this report, comparisons are made with findings from the 2015 survey and other years as appropriate to allow for a time series to be established. Information on data collection and the data analysis conducted for this survey can be found in the survey methodology at the back of this report.

SURVEY RESPONDENTS

218 members responded, 31% of our fund members. 128 respondents also responded to the 2015 survey (59%). This year the survey respondents (excluding the four large master trust respondents) represent 10.3 million members and held £790 billion worth of assets.

Our master trust respondents reported a total of 7,700 participating employers; representing 4.7 million members and holding £148 billion in assets.

DEFINED BENEFIT SCHEMES (EXCLUDING LGPS)

Respondents reported a combined membership of approximately 5.4 million across 403 schemes, constituting 49% of the 10.97 million DB scheme members reported by TPR¹.

Schemes continue to mature, with a reported 44% of scheme members in this year's survey being pensioner members, compared to 39% in 2010. As well as this, schemes continue to close to new members, with only 10% of respondents in 2016 saying that their main DB scheme was accepting new entrants.

Overall contribution rates into DB schemes have remained similar to previous years at around 30%. The mean value of reported contributions stands at 24.2% for employer contribution and 5.6% for employee contributions.

The mean running cost reported for schemes in 2016 is £546 per member; a 37% increase from the 2015 figure of £400 (27%). This has been driven by increases in fund management and custody costs (with an increase of 32% from 2015). It also appears that smaller schemes are finding it difficult to find efficiencies in their costs; the average running cost for a scheme with less than 5,000 members was £787 per member, 63% higher than for schemes with more than 5,000 members whose average cost was just £438 per member.

DEFINED BENEFIT FUNDING AND INVESTMENT

In 2016 the value of assets covered by DB schemes in the survey was £619 billion, up on the £572 billion covered in the 2015 survey. This means that respondents account for nearly half (47%) of assets held by all DB schemes as reported by the PPF².

¹ The Purple Book DB Pensions Universe Risk Profile 2015, Pension Protection Fund and The Pensions Regulator, December 2015.

² The Purple Book DB Pensions Universe Risk Profile 2015, Pension Protection Fund and The Pensions Regulator, December 2015.

As has been the case for a number of years, the proportion of defined benefit assets which are invested in equities has continued to decline in 2016; only a quarter (26%) of all assets were in equities compared with 33% in 2015 and 51% in 2008. The shift appears to have been towards 'other' investments, which stand at 26% in 2016 compared with just 16% in 2008.

There has been a slight but steady fall in the average funding level of DB schemes, as has been the case for a number of years. Overall funding levels were:

- ▶ FRS17/IAS10: 93% (97% 2015)
- ▶ Buyout: 61% (65% 2015)
- ▶ Statutory Funding Objective (SFO): 87% (91% 2015)

DEFINED CONTRIBUTION SCHEMES

In 2016, respondents' main DC schemes represent 1.7 million members with £25 billion worth of assets, much higher than the equivalent coverage in 2015 (£17 billion).

As with DB schemes, average contribution rates have remained steady year-on-year, with the average reported employee contribution sat at 4.2% (the same as 2015) and 7.9% for employer contribution rates (8.0% in 2015). Average combined contribution rates are higher for newly auto-enrolled members, at 9%.

Respondents report that on average 92% of members remain in the default fund. However, schemes continue to offer a variety in terms of choice of funds, with the average scheme reporting that they have 15 different funds available for their members to invest through.

Respondents reported an average (median) annual management charge of 0.4%. As has been the case for a number of years, employers continue to cover much of the costs in regard to the scheme, however this does not include costs associated with fund management, nearly three quarters (72%) of schemes reported that their members have to pay something towards this.

Decumulation options remain dominated by full encashment with around seven in ten respondents providing this option through some means. Notable groups of both contract (76%) and trust (35%) schemes offered more than one decumulation tool to their members aged over 55, with 25% of contract based schemes offering five different types of product (as well as 4% of trust based).

SCHEME GOVERNANCE

The median trustee board contained four trustees nominated by the employer, three nominated by scheme members and one independent. On average, schemes had more than 8 in 10 (83%) male trustees, with one quarter of trustee boards being all male. Only 5% of schemes reported that 50% or more of their trustees were women.

Schemes are reporting a gap in skills on their boards, notably actuarial and legal skills (26% and 38% respectively saying their trustees have these skills), whilst training plans are not as common for these skills as they are for the finance and pensions skills that trustees already have.

LOCAL GOVERNMENT PENSION SCHEME

Responses were received from 32 funds. They reported having 3.1 million members, accounting for just over six in ten of the estimated 5.1 million members in the United Kingdom an increase from the proportion covered in the 2015 survey, which was just over half³. They also reported holding £136 billion worth of assets under management.

The average (median) scheme has 100 scheduled bodies and 48 admitted bodies making contributions in addition to the administering authority.

Contribution rates reported by LGPS schemes have remained relatively steady year on year, with the average (median) combined rate in 2016 standing at 19.4% compared to 19.8% in 2015. As well as this, the median funding level saw minor improvement from 2015 (up to 79% from 78%), however the recovery period remains unchanged at 20 years on average.

The average (median) payable pension for LGPS schemes in 2016 is £4,988 (up from £4,850 in 2015). This is notably below the £8,727 average paid by their private sector counterparts.

In contrast to private sector schemes, the LGPS has seen an increase in equity investment. The mean percentage invested in equities has increased to 61% from 56% in 2015.

The overall cost per member declined in 2016 £193 (£201 in 2015), much lower than the £454 average for private sector schemes. However there was a notable disparity amongst schemes due to notable variation in the fund management cost per member.

³ Department for Communities and Local Government, Local government pension scheme funds summary data, 2015 to 2016, 26 October 2016