Securing the future

Final Report of ACA 2018 Pension trends survey

Survey results suggest cessation rates from automatic enrolment should not stand in the way of increases in minimum pension contributions…Employers remain worried by Government's resistance to defined benefit simplification and its proposals for more across-the-board regulation.

Survey conducted by the Association of Consulting Actuaries

PUBLISHED – 2 JANUARY 2019

At a glance survey results

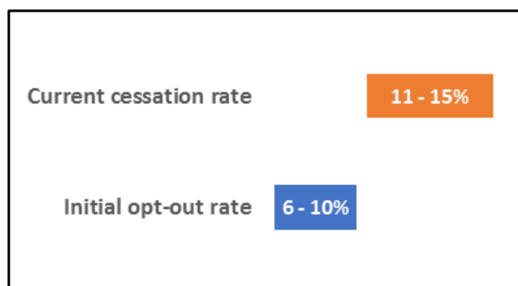
This year's survey included responses from 349 employers of all sizes

Auto-enrolment (AE)

88%

of employers say the April 2018 increase in minimum AE contributions had no adverse impact on scheme participation

AE opt-out and cessation rates

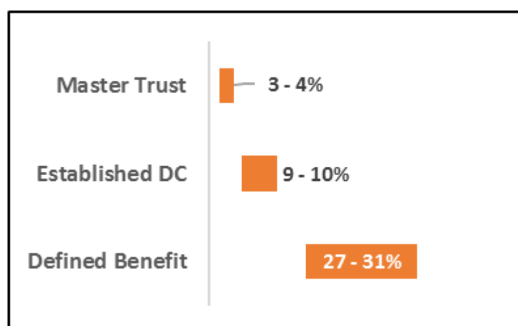


Median initial AE opt-outs and current cessation rates as a % of eligible employees

Employees not eligible for AE

Over 36% of employees at firms with fewer than 10 employees not eligible for auto-enrolment

Pension Contributions



Median combined employer and employee contributions, as a percentage of average earnings, for different types of schemes

72% **say the Pensions Regulator should target minority of unscrupulous employers and distressed schemes rather than revise current DB Funding Code of Practice**

79%

support increased punishments for those caught mismanaging schemes

28% **expect the typical retirement age to exceed 67 by 2028**

52%

say there's reputational risk for employers in offloading DB liabilities to consolidation vehicles with lower capital requirements than insurers

84%

say the law should be changed to reduce pension increases in DB schemes when continuing to provide increases at the level in scheme rules will severely and adversely affect the employer

59%

say DB scheme consolidation more likely if legal changes allowing benefit simplification are allowed. Same % want pension tax simplification.

75%

want current pension tax relief reformed with more help targeted on lower earners

Chair's Introduction
Final Report of ACA 2018 Pensions trends survey

Our survey questionnaire this year was issued shortly after the April increase in automatic enrolment (AE) minimum contributions and the completion of most small employers' staging under the scheme. It enquired about cessation rates post-staging and typical levels of pension contributions across schemes. It also examined, ahead of the expected Pensions Bill next year, what employers are comfortable with in relation to further defined benefit pension reforms and hopeful for in its outcome.

As we noted a year ago, much of the recent debate about pensions has dwelt on legitimate desires to drive down charges and focused on pension transfers and the efficacy of the largely popular 'freedom and choice' reforms. However, our survey again points to the greater need – part of what we see as an essential addition to the Government's 'next steps' pensions strategy – that looks to a gradual, but essential increase in the default level of savings into defined contribution schemes. This is needed to ensure that many more people 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. Without commitment from Government to ensure that sums saved into AE are meaningful, we see little prospect that as a society we will be able to address the fears of a growing gulf in retirement incomes from one generation to the next.

Our survey also considers reforms in the defined benefit pensions space. Whilst fewer than 10% of private sector schemes are now open to new members, still many millions of employees are reliant to some degree on legacy benefits flowing from both open and closed schemes. Our survey findings detail employers' support for more stringent actions against errant directors or trustees, but also identifies views that across-the-board additional regulation would be counter-productive. Simplification of these legacy schemes, so disrupted by 'knee jerk' Government interventions over the years, offers both members and employers huge opportunities and benefits, and could prove the way forward for successful consolidation of the DB pensions landscape.

This report's theme is the need to continue to act in targeted ways to secure the future following the progress made in extending pension provision, so the many still outside the tent, those newly attracted into pensions and those with well-established savings have flexible and positive outcomes for years ahead.

I would like to thank all those employers who responded to the survey questionnaire for the time this involved.

Jenny Condron
Chair
Association of Consulting Actuaries

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Executive Summary

The survey was conducted by the Association of Consulting Actuaries (ACA) in the summer of 2018 for online completion and was circulated to UK employers of all sizes, selected on a random basis. Responses were received from 349 employers sponsoring over 550 pension schemes.

Key findings of Final Report

Retirement and State Pension Ages

- **24%** of employers said the typical retirement age in their firm is now above age 65.
- **28%** expect the typical retirement age to exceed 67 by 2028, when the State Pension Age hits age 67.

Pension contributions

- Median employer contributions into 'traditional' defined contribution (DC) pension schemes across our sample are **6%** of earnings – up 1% on a year ago – with employee contributions ranging between **3-4%** of earnings.
- Median contributions into DC Master Trust and other multi-employer arrangements are reported at a much lower level, with many employers and employees contributing at or just above the minimum automatic enrolment (AE) levels of **2%** of earnings from both employer and employee.
- Median combined employer and employee contributions into defined benefit (DB) arrangements are between **27-31%** of earnings (excluding deficit repair contributions).

Auto-enrolment

- The median opt-out rate of employees at automatic enrolment staging was **6-10%** across the sample as a whole, with this falling to **1-5%** of eligible employees across employers with upwards of 1,000 employees, rising to between **6-10%** across employers with between 50-999 employees, between **11-15%** for those employing 10-49 employees and between **26-30%** at employers with fewer than 10 employees.
- The current median cessation rate of those enrolled in AE schemes (including initial opt-outs) is **11-15%** of eligible employees across all employers.
- **88%** of employers say the April 2018 increase in minimum AE contributions did not impact adversely on scheme participation. Post-April 2019, when the next increase in minimum AE contributions takes place, **75%** of employers expect there will be no increase in current cessation rates from their pension arrangements, although **65%** of employers with fewer than 10 employees do expect modest or substantial decreases in scheme participation.
- Our survey found the median level of those not eligible to be automatically enrolled was between **26-30%** of employees, with this rising to **36-40%** at small employers.
- Whilst **81%** of employers felt the decision to extend AE to those aged 18 or over should be welcomed, there were very mixed views, with a small majority agreeing contributions should be from the first £ of earnings and that minimum statutory contributions should be increased post-April 2019.
- Should the Government ultimately decide to increase minimum automatic enrolment contributions from, say April 2021, the median 'acceptable level' supported by employers was **4% employer + 4% employee** contributions on all earnings.

Other findings from interim survey reports: defined benefit schemes and legislation

- **44%** of employers say the costs associated with their DB schemes are having an impact on pension contributions into other schemes, with upwards of **48%** saying their cost was also having a negative impact on intergenerational equity.
- **55%** say DB costs are also having an impact on business performance and **49%** on business investment.
- **41%** of employers say the incidence of transfer requests from DB schemes exceeds 5% of scheme members, but with just **18%** reporting completed transfer settlements exceeding 5% of scheme members.

New legislation – 2019 Pensions Bill?

- Around **70%** of employers say the Pensions Regulator needs more powers to protect members of DB schemes, whilst **72%** feel those powers should be targeted on unscrupulous employers as a priority rather than toughening the DB funding code of practice for all.
- **66%** say a tougher approach to DB funding will increase conflict with the Pensions Regulator's 'sustainable growth' objective, with **62%** also saying more specific guidance would undermine scheme specific funding.
- **84%** of employers said the law should be changed so that DB schemes can reduce pension increases if continuing to provide increases at the level in scheme rules will severely and adversely affect the employer.
- **40%** of employers feel consolidation of DB schemes is 'generally a good thing'. However, many respondents remain uncertain on the pros and cons of consolidation.
- **59%** felt any consolidation decision would be more likely if schemes were able to make legal changes allowing benefits to be simplified on the way into the consolidation vehicle.

Other findings: Pensions dashboard, Pensions tax and Social Care

- **61%** of employers say schemes should be required by legislation to provide data to the pension dashboard(s), with just **19%** favouring more than one dashboard.
- **48%** are concerned about data cleansing or security issues if the dashboard goes ahead.

Pensions taxation

- **37%** of employers say the restrictions on tax relief have led to pressures to revise pay and benefits packages and **32%** to reconsider their pension arrangements.
- **59%** of employers say the current pension tax structure needs to be simplified.
- **78%** say the tapered annual allowance should be re-thought, with **53%** also calling for the lifetime allowance to be abolished.
- **75%** of employers support changes to pension tax relief that would target more help on lower earners.

Social care

- **41%** of employers say tax changes should be made that encourage social care costs being met from private pensions, but with **40%** opposing such a move. Just **19%** support a new compulsory insurance scheme to meet social care costs, with **29%** opposed – with most 'undecided'.

Section 1 – Survey respondents: background information

Our 2018 survey report, following a questionnaire broadcast in the summer of this year, received responses from 349 employers sponsoring over 550 pension schemes covering every size of business.

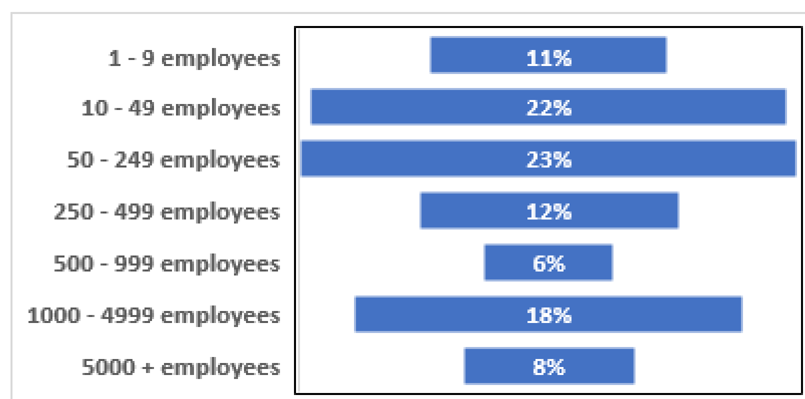
Over a half of the responses this year came from smaller firms employing fewer than 250 employees, with over a quarter replying from organisations with 1,000 employees or more (see *Figure 1*). The sample does not represent a 'mirror image' of UK employers broken down by size. If it did, over 97% of the sample (rather than 33%) would be drawn from firms with fewer than 50 employees[1], but it provides a good indication of trends across all types of enterprises, as it has done since its inception in 1997.

At the end of 2011, some 30% of the UK's employers provided workplace pension schemes with around a further 7% making contributions into employees' personal pensions[2]. However, this is a picture that has changed markedly over the period since 2012 with the Government's pension automatic enrolment (AE) policy[3]. As we write this report, around 81% of 'eligible' employees are now in workplace pension schemes, and over 1.4 million employers have met the declaration of compliance requirement.

> ***"Huge progress has been made in extending the numbers covered by pensions – but still upwards of 13 million private sector workers remain outside the pensions tent. So, much remains to be done."***

But pause on the figures. These Government figures could be felt to be a little misleading in that those 'not eligible' for AE schemes, over 9 million, are omitted from the statistic as it refers to 'eligible employees'. Those presently not enrolled automatically are workers below aged 22, those on low incomes, part-timers and those above State Retirement Age. As a result, the actual percentage of the workforce that are in workplace pension arrangements taking into account initial opt-outs, later cessations[4] and the non-pensioned self-employed, is much closer to 60% of the total workforce. The 2017 Review of automatic enrolment is proposing that those aged 18 and over fall within the 'eligible' grouping for AE, adding a further 900,000 to the potential numbers covered by the policy.

Figure 1: Organisations responding to the survey



(Source: ACA 2018 Pension trends survey, Table 1, page 27)

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[1] **Source:** BIS Business Population Estimates 2018

[2] **Source:** DWP Research Report *Employers' Pension Provision Survey 2011* figure

[3] The Government's automatic enrolment policy requires all firms with one or more employees to auto-enrol eligible jobholders into a workplace pension scheme with certain minimum standards on a staged basis by late 2018 and to re-enrol every 3 years.

[4] Cessations are those employees who decide to leave their AE scheme after the initial one month 'opt-out' period.

Of the employers responding to the survey at July 2018:

- **The principal types of open pension schemes run by the employers responding to the survey are defined contribution in structure with two-thirds of the employers offering Master Trusts or other multi-employer schemes** (see *Figure 2*).

It also seems likely that a number of employers have taken the opportunity to close established trust and contract-based schemes in favour of in the main lower-cost Master Trust and multi-employer schemes. Indeed, there have been reports that as many as half of small and medium-sized employers have switched AE providers.

The survey found:

- **43% of trust-based DC schemes and 37% of contract-based DC schmes are reported closed to new entrants and future contributions** (see *Figure 2*).

This year the survey did not test the extent of levelling-down of pension provision for existing employees – although it is clear this has been considerable in terms of those no longer able to accrue defined benefit pensions, some 44% (66% in the case of mixed DB/DC schemes) this year, as opposed to 36% some 5 years ago[5]. In this sample, one in five defined benefit schemes are now open to new entrants, with around half of these used for AE.

"In our sample, one in five defined benefit schemes are open to new entrants. 44% are also closed to future accrual"

Figure 2: Number, types and status of pension schemes provided by employers responding to survey

Percentages are of all employers with schemes	Employers with scheme type	Of which:			
		Open Used for AE	Open Not used for AE	Closed to new members, open to future accrual/contributions	Closed to new members and future accrual/contributions
Firm's contract-based DC arrangement	34%	23%	23%	17%	37%
Firm's trust-based DC scheme	16%	13%	22%	22%	43%
Master Trust scheme	59%	89%	3%	2%	6%
Other Multi-employer scheme	8%	8%	22%	22%	48%
Firm's defined benefit scheme	22%	12%	8%	36%	44%
Firm's mixed DB/DC scheme	14%	2%	9%	23%	66%

(Source: ACA 2018 Pension trends survey, Table 2, page 27)

[5] See *ACA 2013 Pension trends survey*, www.aca.org.uk (research page)

Section 2 – Retirement ages

With the ONS projecting close to a quarter of the UK population will exceed age 65 in the next 20 years (as opposed to one in five at present), a number of reports and official statistics have pointed to a situation where more employees are working beyond the hitherto typical retirement age and the present State Pension Age (SPA) of 65. And there has also been a reported trend for retirees to return to work post age 65. Personal financial circumstances, extended healthy life-spans for some and a strong employment market are seen as contributory factors.

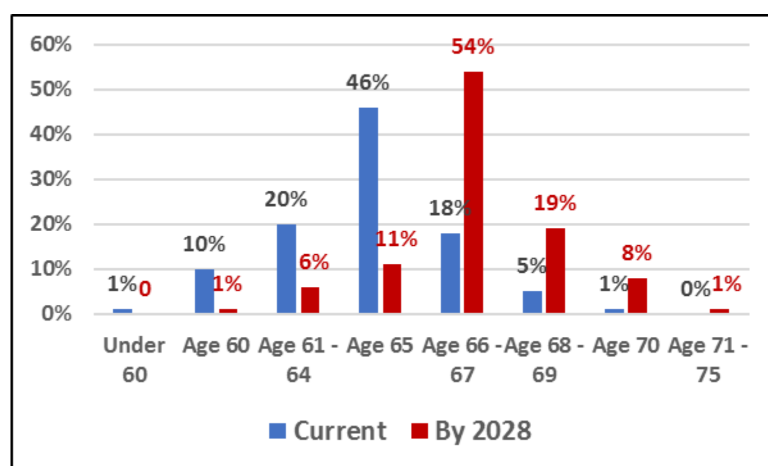
Our survey largely endorsed these findings with:

- **24% of employers saying the typical retirement age in their firm is now above age 65** (see *Figure 3*)**.**

Looking further ahead, as the State Pension Age increases to 66 (by 2020) and then 67 (by 2028), employers continue to expect typical retirement ages to also increase, with:

- **28% expecting the typical retirement age to exceed 67 by 2028, when the State Pension Age hits age 67** (see *Figure 3*)**.**

Figure 3: Typical current retirement ages and how employers expect this to change by 2028 (when SPA reaches age 67).



(Source: ACA 2018 Pension trends survey, Table 3, page 27)

- This overall change by 2028, in just a decade, could be pronounced. According to the survey results **77% of employees currently retire at 65 or younger – a figure that could be reduced to just 18% by 2028.** Given the tight labour market at present, this change – driven for whatever reasons – may be viewed as helpful in meeting employers' needs (assuming no post-Brexit reverse in employment and vacancies) or, alternatively, as obstructive by younger employees seeing their career advancement blocked.

Section 3 - Pension contributions and auto-enrolment

Our survey found:

- **Median employer contributions into 'traditional' defined contribution (DC) pension schemes across our sample are 6% of earnings – up 1% on a year ago – with employee contributions ranging between 3-4% of earnings** (see *Figure 4*).

These levels for DC schemes, many set up ahead of automatic enrolment (AE) are much the same as three years ago and suggest there has been no levelling down of contributions into these types of schemes for existing employees. Indeed, there is evidence this year that employers have lifted their contributions, widening the gap between these arrangements and the predominant AE vehicles – DC Master Trust schemes.

- **Median contributions into DC Master Trust and other multi-employer arrangements are reported at a much lower level, with many employers and employees contributing at or just above the minimum AE levels of 2% of earnings from both employer and employee.**
- **Set against this, median combined employer and employee contributions into defined benefit arrangements are between 27-31% of earnings (excluding deficit repair contributions), mirroring 2017 levels**.

Higher defined benefit contributions reflect the cost of delivering salary related pensions in the years ahead as longevity extends and in a low interest rate environment.

Figure 4: Median contribution rates as a percentage of earnings into pension arrangements provided by responding employers (by types of scheme). (Figures in brackets are 2017 figures from the *ACA 2017 Pension trends survey* report)

	Employer		Employee
Contract based DC	6% (5%)		3% (4%)
Trust based DC	6% (5%)		4% (4%)
Master Trust	1-2%% (1-2%)		2% (1%)
Other multi-employer schemes	3% (1-2%)		2% (1%)
Mixed DB/DC	16-20% (16-20%)		6% (5%)
Defined benefit	21-25% (21-25%)		6% (6%)

(Source: ACA 2018 Pension trends survey, Table 4, page 28)

Whilst ahead of AE beginning in 2012 there had been small increases in median employer and employee contribution levels into defined contribution arrangements reported in our surveys, this year's research confirms other findings of an overall reduction in typical contributions paid by both employers and employees into many new AE schemes, such as Master Trusts. It seems certain from the survey results, confirmed by other DWP[6] and ONS

[6] '*In the private sector there was a decline in the average amount per eligible saver between 2016 and 2017. This is a result of the increased number of savers in the private sector many of whom will be making contributions at the current automatic enrolment minimum level and therefore lowering the average overall*.' Extract from DWP, Workplace Pension Participation and Savings Trends of Eligible Employees Official Statistics: 2007 to 2017.

reports, that as smaller employers met their staging dates, in general they have automatically enrolled at very modest contribution levels, which are below the median contribution rates our survey found from the minority of employers who already provided schemes ahead of automatic enrolment[7].

This position should be to some degree addressed by the relatively large increase in minimum contributions due in April 2019 and by upcoming promised changes in AE during the 2020s with contributions being paid from the first £ of earnings (as opposed to from above £6,136 (in 2019/20) as at present).

Employee opt-out and cessation rates and 'non-eligibles'

There has been a general welcome for the 'low' employee opt-out rates from automatic enrolment reported elsewhere to date, with a figure of 9% across all employers[8] (increasing to around 13% - 23% amongst small and micro employers[9]). Overall, data to date provided by DWP[10] indicates that employers estimate that in the year following enrolment something like 16% of employees who have been automatically enrolled cease active membership after the initial one month opt-out period – but, with around seven out of ten ceasing membership of a scheme because of a move in employment[11].

Our survey this year found that:

- **The median opt-out rate of employees at auto-enrolment staging was 6-10% across the sample as a whole, with this falling to 1-5% of eligible employees across employers with upwards of 1,000 employees, rising to between 6-10% across employers with between 50-999 employees, between 11-15% for those employing 10-49 employees and between 26-30% at employers with fewer than 10 employees**.
- **The current median cessation rate (including initial opt-outs) is 11-15% of eligible employees across all employers, with higher cessation rates at employers with fewer than 500 employees** (see *Figure 5*).

The data we have collected defined the current 'cessation rate' as being the total percentage of eligible employees now withdrawn from auto-enrolment (i.e. including initial opt-outs). What is not clear from these findings, as this was not tested, is the degree to which the cessation rates reported by employers in this sample is down to employees moving away from their firm or for other reasons, such as an inability to afford (higher) contributions into the longer-term.

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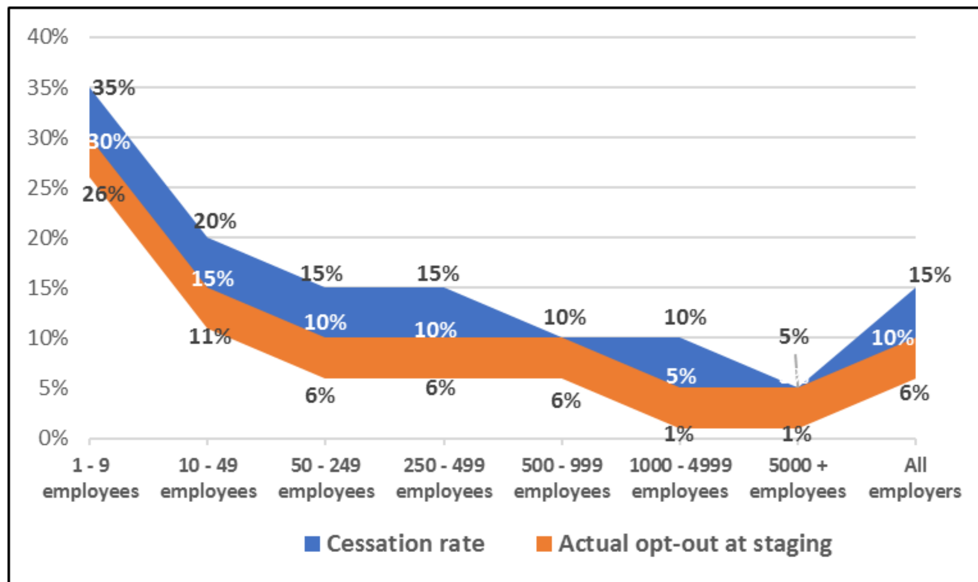
[7] See also *Weighted-average contributions rates to private sector defined contribution schemes: 2013-2017*, published by ONS, which found average occupational defined contributions by employers have reduced from 6% in 2013 to 2% in 2017 and by employees from 3% to just over 1%.
[8] See *Employers Pension Provision Survey 2017,* published by DWP, June 2018, page 70.
[9] See *Automatic enrolment: Quantitative research with small and micro employers,* published by DWP, June 2018, pages 48-56.
[10] See *Employers Pension Provision Survey 2017,* page 72.
[11] Ibid, page 76.

Figure 5: Median employee opt-out rates on auto-enrolment (AE) and current 'cessation rate' (total percentage of eligible employees now withdrawn from auto-enrolment)

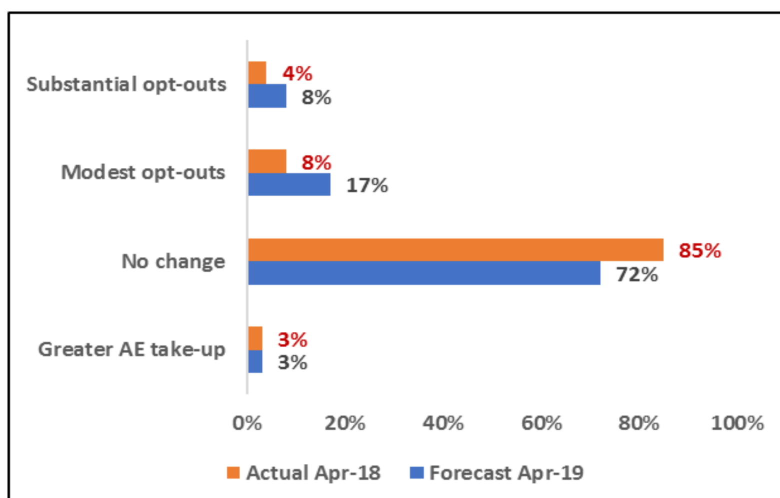


(Source: ACA 2018 Pension trends survey, Table 5, page 28)

The survey questionnaire also examined employers' experience of what had happened when the minimum statutory contribution rates for employees (and employers) increased in April 2018. We also examined what employers expected to happen in April 2019, when minimum AE contributions are again increasing.

- **88% of employers say the April 2018 increase in minimum AE contributions did not impact adversely on scheme participation.**
- **Post-April 2019, when the next increase in minimum AE contributions takes place, 75% of employers expect there will be no increase in current cessation rates from their pension arrangements, although 65% of employers with fewer than 10 employees do expect modest or substantial decreases in scheme participation** (see *Figure 6* and *Table 7, page 29*)**.**

Figure 6: Changes in automatic enrolment scheme participation following the April 2018 increase in minimum contributions and forecast changes following the April 2019 increase in contributions



(Source: ACA 2018 Pension trends survey, Tables 6 and 7, pages 28/29)

> ***"Those not eligible to be auto-enrolled total over 9.2 million employees"***

Another factor that disguises the number of employees who are not automatic enrolled is the very high number of employees who do not meet the eligibility criteria based on either their age or low incomes. Those not eligible to be auto-enrolled now total over 9.24 million employees[12] (plus the self-employed[13]).

- **Our survey found the median level of those not eligible to be automatically enrolled was between 26-30% of employees, with this rising to 36-40% at small employers** (see *Figure 7*)**.**

We comment later in this report on the need for AE to move on to cover a wider grouping over and above Government proposals to extend eligibility to those aged 18 or over (as opposed to 22 or over, presently).

Figure 7: Percentage of employees not eligible for automatic enrolment (for example, because their earnings are generally too low or because of age)

Not eligible for AE	All employers	1-9 employees	10-49 employees	50-249 employees	250-499 employees	500-999 employees	1000-4999 employees	5000 employees +
Median	**26-30%**	36-40%	31-35%	26-30%	16-20%	11-15%	11-15%	5-10%

(Source: ACA 2018 Pension trends survey, Table 8, page 29)

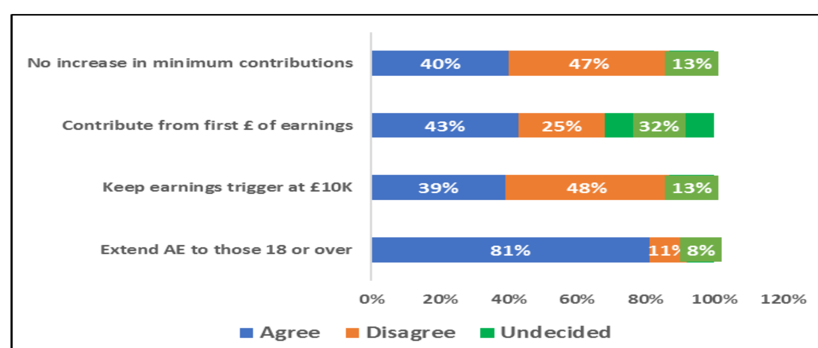
Automatic Enrolment Review

The 2017 Review of automatic enrolment (AE) proposed a number of changes to build on the success to date of AE. Our survey explored a number of the proposals as well as a number of reforms that failed to be included as recommendations, certainly in the near term.

We found:

- **Whilst 81% of employers felt the decision to extend AE to those aged 18 or over should be welcomed, there were very mixed views, with a small majority agreeing contributions should be from the first £ of earnings and minimum statutory contributions should be increased post-April 2019** (see *Figure 8*)**.**

Figure 8: Employers' views on various proposals announced in the 2017 AE review by DWP



(Source: ACA 2018 Pension trends survey, Table 9, page 29)

[12] *Automatic Enrolment Declaration of compliance report*, July 2012 – end November 2018, published by the Pensions Regulator in December 2018.

[13] ONS UK Labour Market, October 2018, figures report 4.7 million self-employed workers, up over 40% on 2000 figures. Of these, it is estimated around 14% are saving for retirement (*DWP press release, 18 December 2018,* Comment by Guy Opperman MP, Pensions and Financial Inclusion Minister).

What if?

We also tested what employers were prepared for if the Government accepted the argument that present minimum AE contributions are insufficient to provide for comfortable retirement incomes, given that further contribution increases might be possible as opt-out and cessation rates are probably a little lower than was originally expected:

- **Should the Government ultimately decide to increase minimum AE contributions from, say April 2021, the median acceptable level supported by employers was 4% employer + 4% employee on all earnings[14]** (see *Figure 9*)**.**

As might be expected, whilst smaller firms are reluctant to see any further increases in AE minimum contributions, larger employers were prepared for a 5% employer + 5% employee outcome.

Figure 9: Employers' views on the levels of minimum contributions they could support if the Government decided to increase minimum AE contributions from say April 2021. Median responses.

	All employers	1-9 employees	10-49 employees	50-249 employees	250-499 employees	500-999 employees	1000-4999 employees	5000 employees +
Median: Employer % + Employee %	**4% + 4% All earnings**	No increase on 2019	No Increase on 2019	4% + 4% All earnings	4% + 4% All earnings	5% + 5% All earnings	5% + 5% All earnings	5% + 5% All earnings

(Source: ACA 2018 Pension trends survey, Table 10, page 29)

[14] From April 2019, minimum AE contributions will be 8% of earnings between £6,136 and £50,000 earnings (2019/20 band) with a minimum of 3% from employers.

Section 4 – Defined Benefit Schemes and 2019 Pensions Bill

Our findings reported earlier this year, in October, in respect of defined benefit schemes and reactions to the Government's DB White Paper reveal mixed feelings amongst employers about what should appear in the Pensions Bill, which the Pensions and Financial Inclusion Minister hopes to introduce in 2019.

Summarising the key findings in respect of the present impact of defined benefit schemes on employers:

- **44% of employers say the costs associated with their defined benefit schemes are having an impact on pension contributions into other schemes, with upwards of 48% saying their cost was also having a negative impact on intergenerational equity.**
- **55% say DB costs are also having an impact on business performance and 49% on business investment** (See *Table 11, page 30*)**.**

The survey results also point to a continuation in the trend, albeit at a slightly slower pace, of pension transfer requests from defined benefit schemes, although the recent ruling on GMPs following the Lloyds Bank case may cause more schemes to pause in granting transfers. Transfer requests are placing an enormous pressure on scheme administration. As we reported last year, alongside other freedom and choice costs, transfer value activity is adding between 10-20% to scheme administration costs over previous years.

This year, we found:

- **41% of employers say the incidence of transfer requests from defined benefit schemes exceeds 5% of scheme members, but with just 18% reporting completed transfer settlements exceeding 5% of scheme members** (see *Table 12, page 30*).

Over the last two to three years, it has been reported that well over £50 billion has been withdrawn from defined benefit schemes, with average transfers out of DB schemes now exceeding £230,000. Our findings underscore mounting concerns that high transfer values (due to low interest rates) are stimulating member interest in cashing in DB pensions. The flames are being further fuelled by concerns over scheme deficits. It has been suggested three million of the UK's defined benefit scheme members may only have a 50:50 chance of receiving full benefits.

There are concerns about both the availability and appropriateness of the regulated advice available to DB scheme members. Other research[15] suggests that only around half of those who took advice to transfer were properly advised. Of the other half, one third of recommendations were unsuitable and the remainder were unclear.

This is disappointing but isn't surprising. DB pensions are complex and varied and their value is not well understood. Comparing a DB pension to uncertain post-transfer investment returns and income choices is fiendishly complex.

Our survey results confirm the ongoing shortage of IFAs prepared to provide guidance services in this complex area. However, many schemes are additionally noting to our members that,

[15] FCA research on defined benefit pension transfers, published 3 October 2017.

where IFAs are providing advice, the questions they pose during the transfer process are varied and time consuming. The quantum of enquiries and differences in approaches is posing difficulties for administrators and pushing up administration costs. Standardisation in the questions asked would seem to be a sensible step and it is encouraging that this now seems to be accepted by the Regulators.

2019 Pensions Bill

The Pensions and Financial Inclusion Minister, Guy Opperman, has said that he is seeking legislative time in 2019 for a Pensions Bill that will enact a number of measures. We found a substantial majority of employers feel the Pensions Regulator (tPR) needs more powers to help protect defined benefit (DB) scheme members, although a similar majority say these powers should be targeted on unscrupulous employers as a priority rather than toughening the funding code of practice for all.

Employers also said a tougher approach to defined benefit scheme funding will conflict with the tPR's supporting its 'sustainable growth' objective. The vast majority also want to see in the Bill some greater flexibility in law to adjust future pension increases if employers are in serious financial difficulty. The DB White Paper was disinclined to recommend such a policy shift.

We tested employers' views on a number of the expected policy actions. Our findings can be summarised as follows:

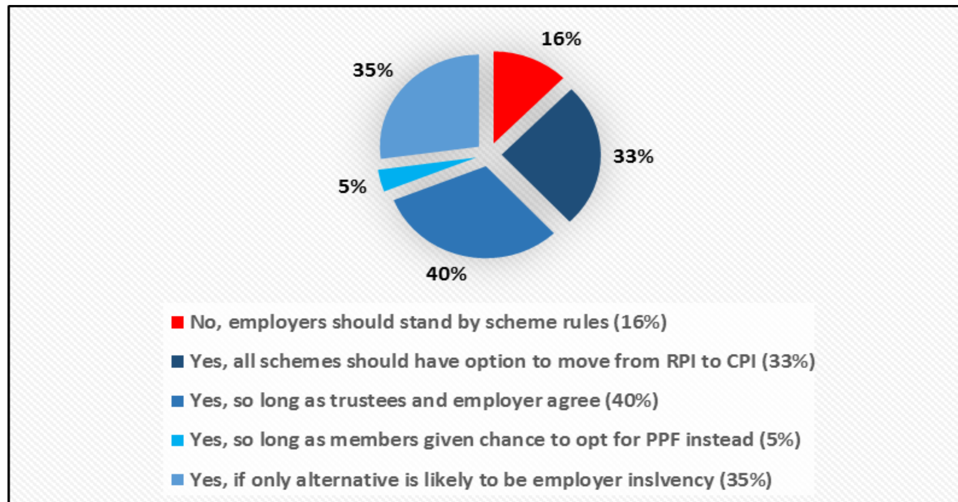
- **Around 70% of employers say the Pensions Regulator needs more powers to protect defined benefit schemes, but 72% feel those powers should be targeted on unscrupulous employers as a priority rather than toughening the DB funding code of practice for all** (see *Tables 13 and 14, pages 30/31)***.**
- **66% say a tougher approach to DB funding will increase conflict with the Pensions Regulator's 'sustainable growth' objective, with 62% saying more specific guidance would undermine scheme specific funding** (see *Table 14)***.**
- **84% of employers said the law should be changed so that defined benefit schemes can reduce pension increases if continuing to provide increases at the level in scheme rules will severely and adversely affect the employer** (see *Figure 10*)**.**

Reflecting proposals being canvassed by both the Government in the DB White Paper and also prompted by the PLSA[16], we also examined employers' views on the consolidation of smaller defined benefit schemes into larger arrangements on grounds this might improve their efficiency, performance and governance.

> ***"For the second year running, 84% of employers said the law should be changed so that defined benefit schemes can reduce pension increases if continuing to provide increases at the level of scheme rules will severely and adversely affect the employer"***

[16] PLSA paper, *DB Taskforce: opportunities for change*, published September 2017.

Figure 10: Employers' views on whether the law should be changed so defined benefit schemes can reduce pension increases if continuing to provide increases at the level in scheme rules will severely and adversely affect the employer

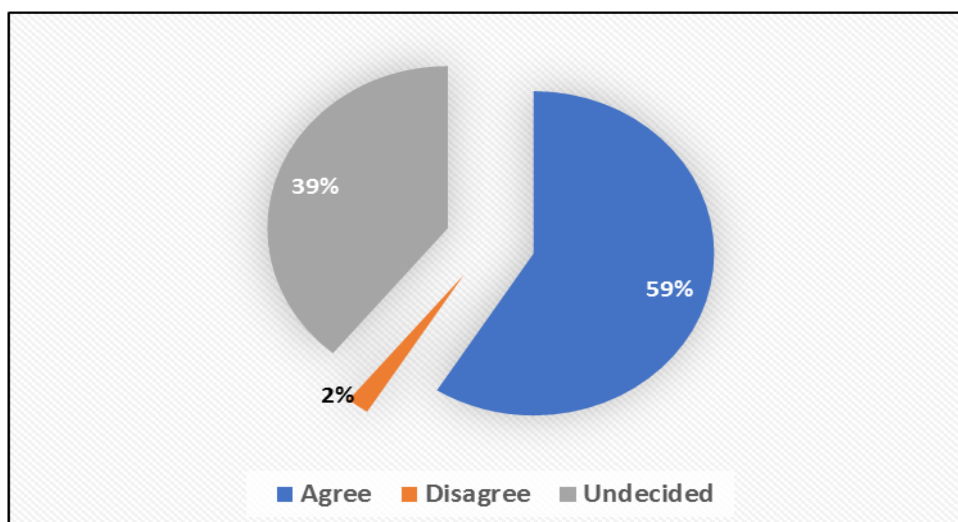


(Source: ACA 2018 Pension trends survey, Table 15, page 31)

Our survey found:

- **40% of employers feel consolidation of DB schemes is 'generally a good thing'. However, many respondents remain uncertain on the pros and cons of consolidation, with 52% expressing a concern over the reputational risk involved in offloading liabilities to vehicles with lower capital requirements than insurers. Significantly, 59% felt any consolidation decision would be more likely if schemes were able to make legal changes allowing benefits to be simplified on the way into the consolidation vehicle** (*see Figure 11*)

Figure 11: Employers' views on whether simplification on the way into a consolidation vehicle would make a favourable decision more likely



(Source: ACA 2018 Pension trends survey, Table 16, page 31)

Section 5 – Pensions Dashboard, Pensions tax and Social Care

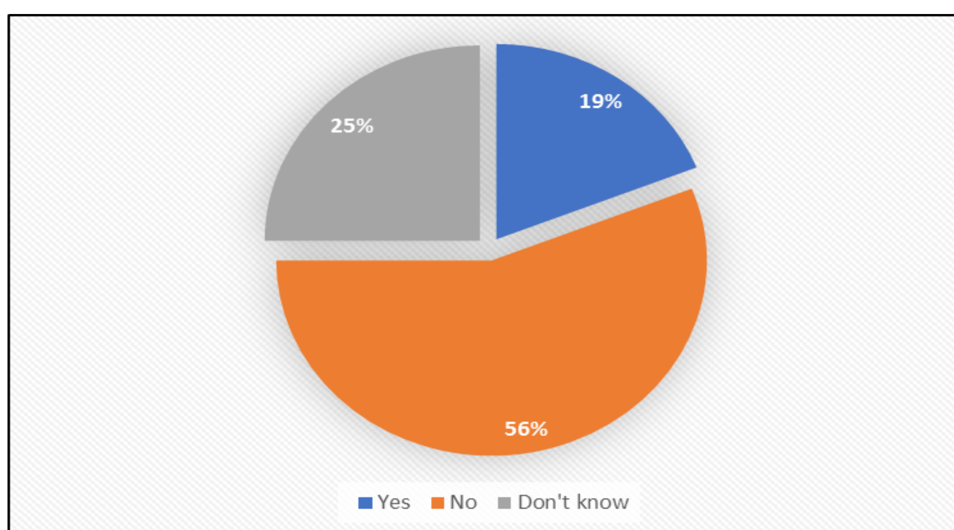
Pensions dashboard

The DWP feasibility study on the pensions dashboard initiative has just been published. It is now relatively clear that the Government will support the broad objective, but is expecting the dashboard's further development to be 'industry-led'. It is as yet unclear when the Government is going to propose legislation requiring schemes to provide data to the dashboard(s), although it seems difficult to see how the policy can be successfully delivered without such support, as many smaller schemes must be considered as unlikely to provide data without compulsion:

Our survey found:

- **61% of employers say schemes should be required by legislation to provide data to the pension dashboard(s), with just 19% favouring more than one dashboard. However,**
- **48% are concerned about data cleansing or security issues if the dashboard goes ahead** (see *Table 17, page 31*)**.**
- **The survey also found a majority of employers (56%) were opposed to there being more than one dashboard, presumably on grounds over whether this would confuse the public and possible additional administration for schemes** (see *Figure 12*)**.**

Figure 12: Employers' views on whether there should be more than one pensions dashboard



(Source: ACA 2018 Pension trends survey, Table 17, page 31)

Pensions taxation

Ahead of this year's Budget there had been 'rumours' suggesting the Chancellor might be tempted to squeeze pension tax reliefs under the present regime yet again. We noted in our Budget representations that further rushed changes would almost inevitably lead to even more unacceptable complexities and anomalies – an outcome that would undermine confidence still further in pension savings amongst those millions who hitherto have tried to minimise their call on State support in their retirement years. Thankfully, the Chancellor heeded our warnings.

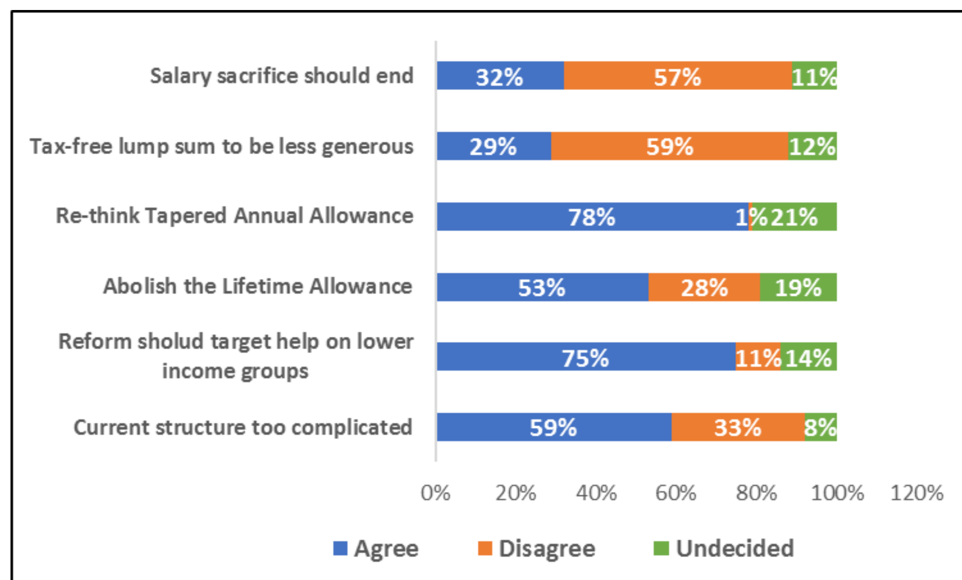
A finding on the present situation was that:

- **37% of employers say the restrictions on tax relief has led to pressures to revise pay and benefits packages and 32% to reconsider their pension arrangements** (see *Table 18, page 32*).

Nevertheless, the survey found a strong employer consensus for reforms to simplify the pensions tax regime in the longer-term. Key findings were:

- **59% of employers say the current pension tax structure needs to be simplified**.
- **78% say the tapered annual allowance should be re-thought, with 53% also calling for the lifetime allowance to be abolished.**
- **75% of employers support changes to pension tax relief that would target more help on lower earners** (see *Figure 13*).

Figure 13: Employer views on whether pension tax relief should be reduced or targeted in a different way



(Source: ACA 2018 Pension trends survey, Table 19, page 32)

Social care

This year's survey found little consensus amongst employers on the long-term funding of social care. The extra public funds already ear-marked by Government for social care are widely supported and might help address a one-off immediate need. However, the expected rise in costs year-in, year-out due to an ageing population suggest other changes that encourage costs being met from private pensions, insurance solutions and alternative funding solutions are also going to be needed in any longer-term package.

At the time of writing, a Social Care green paper is expected from Government, with the Health Secretary of State, Matt Hancock, seemingly interested in floating a social insurance scheme as one of the policy options.

Key findings are:

- **41% of employers say tax changes should be made that encourage social care costs being met from private pensions, but with 40% opposing such a move.**
- **Just 19% support a new compulsory insurance scheme to meet social care costs, with 29% opposed – with most 'undecided'** (see *Table 20, page 32*)**.**

Alongside the full survey results on social care[17], we published a *Placard*[18] discussion paper exploring the developing crisis and pointing to solutions with contributions from Sir Steve Webb, the former Pensions Minister, and Tom Kenny, Chair of an IFoA[19] Health & Care Working Party.

[17] See www.aca.org.uk, news release dated 27 September 2018.
[18] *Placard*, Issue 37, see www.aca.org.uk, publication dated 25 September 2018.
[19] Institute and Faculty of Actuaries.

Section 6: The 'Next Steps' strategy: ACA recommendations

How to grow workplace pension contributions

Whilst automatic enrolment (AE) has extended workplace pension coverage to millions of employees who in recent years were not offered workplace pensions, it is vitally important that the schemes which employees join are designed and developed to be fit for purpose. By this we mean that the pensions arrangements delivered are robust enough to provide more retirees with incomes that allow for an adequate retirement, without dependency on State welfare benefits. Workplace schemes should also offer their members similar flexibilities so that 'freedom and choice' is not just confined to a minority approaching retirement.

This survey has underscored that, whilst automatic enrolment is introducing many more employees to pension saving, supported by their employer contribution and tax relief, big hurdles remain in terms of increasing minimum AE contributions in the years ahead after April 2019, either by compulsion or voluntary methods, to ensure many more people enjoy a comfortable retirement income.

Much has been said about the 'success' of automatic enrolment, but this still has to be secured with so many new pension savers, especially as 'affordability' has been reported as the principal reason why individuals to date have opted-out[20]. A careful eye will need to be kept on actual cessation rates over time and what is driving members to leave AE schemes and whether leavers are joining up to schemes in their new employment.

Aside from opt-outs there is the even larger issue of how many employees, encompassing those earning less than £10,000pa (including many women and part-time workers), the self-employed and those engaged in the 'gig economy', are presently excluded from joining an AE scheme. Even when those aged 18 and over are added to the mix, upwards of 13 million workers should not be relying solely on the State Pension plus uncertain other State benefits for their income in later life (or, if they are fortunate, other private savings). They too need to be saving something towards income in later life and contributing at AE minimum levels or above. We see it as highly dangerous to rely on there being State benefits at today's levels in retirement for decades ahead given the deteriorating support ratio.

"Upwards of 13 million workers should not be relying solely on the State Pension plus uncertain other State benefits for their income in later life"

Even if the high rates of participation are maintained, the eventual 2019 AE minimum 8% contribution of qualifying earnings (and of all earnings, subject to future legislation) is unlikely to generate for very many the retirement income that will lead onto a comfortable retirement. Assuming 40 years of contributions at 8%, with a 3% real return on investment, a person on average earnings is likely to fall markedly short of the Pension Commission's targeted replacement income[21] of two-thirds of pre-retirement income. Indeed, a contribution rate of between 12-16% would probably be needed to reach this benchmark. Variable earnings over a lifetime and shorter periods of savings make the argument for higher than 8% contributions all the more powerful, especially given the forward pressures in funding State pensions due to a rapidly ageing society.

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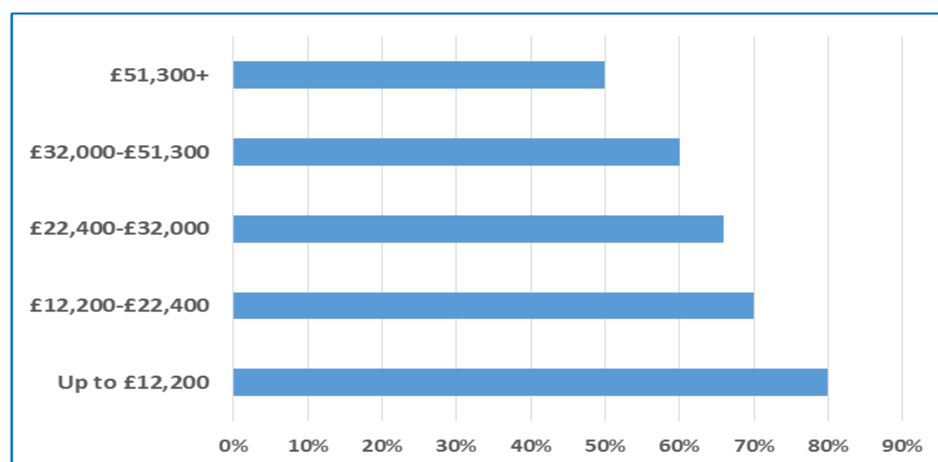
[20] *NEST insight 2015: taking the temperature of auto-enrolment,* page 18.

[21] *Figure 14*, page 21.

A PPI study[22] has broadly confirmed these findings. Whilst a low-earner contributing 8% would have a 63% probability of achieving the Pension Commission's target replacement income (including the single tier State pension) on retirement, an average earner has a 49% probability and a high earner a 40% probability. However, these probabilities decline sharply with career breaks or if pension saving starts at a later age.

More recently PLSA has produced a paper on delivering better retirement incomes through the establishment of a range of targets and the means to hit those targets [23].

Figure 14: Pension Commission: target replacement ratios by income



(Source: Framework for the analysis of future pension incomes, DWP, September 2013)

We view it as vital that the Pensions Minister develops a 'next steps' strategy to secure the progress to date of automatic enrolment and – depending on the success of the UK economy over the near to mid-term – plans are made to boost minimum pension contributions from, realistically, 2025 onwards, following extensions in pensionable earnings and AE coverage.

We believe that the Government will have to be prepared to offer incentives to secure the ongoing success of the automatic enrolment programme and the Minister should consider the following next steps and forward policy commitments:

Minimum pension contributions: a plan for the future

- **Serve notice that from April 2021 the Government will reduce the lower band on earnings eligible for AE as outlined in the 2017 AE Review. At the same time, actions are needed to draw more of those on lower incomes and the self-employed[24] into AE levels of pension contributions. A start could be made by including the gig economy's quasi-employers into the regime over the period.**
- **We further recommend some new flexibility whereby new employers are able to introduce the full minimum statutory contributions after April 2019 on a phased basis over three years. An additional flexibility might also be offered for employees**

[22] *What level of pension contribution is needed to obtain an adequate income?* Published by the Pension Policy Institute, October 2013.
[23] *Hitting the Target: A Vision for Retirement Income Adequacy.* Published by PLSA, July 2018.
[24] It is encouraging that the DWP is moving ahead with pensions and long-term savings trials for the self-employed, announced on 18 December 2018.

to opt-down when they are facing an all or nothing choice to pay increased contributions in 2019, rather than opting-out of their pension entirely[25].

- **Serve notice that the Government will seek cross-party support to map out increases in the minimum AE contributions after 2025 targeting an eventual combined contribution of at least 12%-14% of earnings. This longer-term policy should also seek to offer incentives for employers to auto-escalate contributions to above the minimum on a voluntary basis.**
- **Serve notice that the Government will assist smaller employers and their employees over the period of increases in pension contributions by way of planned reductions in NI and further increases in tax-free allowances and the Employment Allowance.**
- **These increases in contributions and tax adjustments will only be implemented subject to the performance of the economy, particularly in terms of there being a general growth in earnings net of tax.**

Auto-escalation of pension contributions

Looking to the future, one possible way of building up employee contributions into pensions is via 'auto-escalation'. Auto-escalation encourages people to commit to increasing their pension contributions at a future date, often in line with wage increases. The idea is one that the DWP has said is worthy of further examination[26] as, much like auto-enrolment, it plays on inertia. Once signed up, an individual no longer has to take active decisions to increase their contributions – that happens automatically. By synchronising the point of increase in contributions with an increase in wages, individuals not only defer to a later date the loss of immediate income that an increase in contributions represents, but also know that, when it comes, it will be tempered by their overall income increase.

Whilst the concept has been taken up by many large companies using defined contribution in the USA, the idea has not taken off in the UK. A clear economic pre-condition is, however, that earnings are generally increasing year by year. It may be that the UK economy is entering a phase where year on year wage increases will begin to re-emerge enabling auto-escalation to take hold, and in this event it is likely that larger employers will be the first to consider such an approach in the UK.

Our 2013 and 2015 surveys found over a quarter of employers prepared to support the idea whereby employees are encouraged to auto-escalate their pension contributions at a future date as wages and salaries increase. This must be seen as encouraging, but it seems likely that for the initiative to take-off there may be a need for the Government to incentivise employers to offer such an option.

Other 'Top two next steps' policy recommendations

The overall philosophy of the Government should be to continue to boost saving for later life focusing on the promotion of a wide range of flexible retirement arrangements as part of a broader approach to encourage lifetime savings. Financial incentives should be greatest for savings locked away for the long term, with legislative and regulatory prescription minimised and simplified.

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[25] Research published by Royal London in August 2017 suggested opt-outs by millennials could increase by 16% when the April 2019 increase in minimum contributions takes place.

[26] DWP paper, *Reinvigorating workplace pensions,* November 2012, Cmnd 8476, pages 19-20.

Aside from phasing-in higher AE contribution levels, as detailed above, our next 'top two' policy priorities for Government are:

Defined benefit pensions

1. To help with the sustainability of defined benefit pension schemes, which still support the incomes of millions of UK families, the upcoming Pensions Bill should commit to:

  a. Subject to certification, **defined benefit schemes need more flexibility than at present so they are better able to simplify legacy benefit structures (including a national standard benefit format to migrate schemes to) and can reduce scheme administration costs and facilitate hedging and buy-out options**. This simplification would also facilitate the introduction of the pension dashboards and help members to better understand the total value of their benefits. It is also felt that this is an essential first-step if voluntary consolidation of schemes on any scale is to be successful[27].

  b. **Legislation to allow a new flexibility to enable employers who are no longer in a position to provide the promised benefits to be able to compromise to a level between PPF compensation and full benefits – subject to key safeguards and where this is demonstrably in the members' interests.** This facility needs to be more flexible than the Regulatory Apportionment Arrangement route and cheaper to implement so that it is available to smaller employers as well.

  c. **Provide a statutory override – shared by the trustees and scheme sponsor – to allow defined benefit schemes whose rules 'embed' RPI to be able to switch to an alternative index.** A shared power would provide safeguards and from a member perspective, offer the opportunity for trustees to seek an increase in member security when such a switch is sought.

Taxation of pensions

2. **The current pension tax regime is now truly not fit for purpose and we call upon the Chancellor to prioritise the need to simplify the tax regime and to commit to a thorough post-Brexit review of the regime (which could encompass capping the overall tax reliefs given).** For example, in our view, the Lifetime Allowance discourages pension saving and is resulting in the early retirement of elements of the workforce in key roles, to avoid penal tax charges; and similar themes apply to the tapered Annual Allowance, an incredibly complex measure, fear of which is impacting on pension provision for a much wider group than the stated policy target, and which 2017/18 experience will show is a measure impossible to police. Both should be abolished. Once the regime is simplified, there needs to be a commitment to long-term stability of tax and savings policy so that people can plan for the long term.

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[27] See *Simplifying pension benefits – is it time for the Pensions Pound?* a paper published by the ACA and Royal London at www.aca.org.uk, 'publications' page, 19 November 2018.

Other 'next step' proposals are:

Collective Defined Contribution (CDC)

3. We welcome the proposed reform that looks to offer both employers and employees an additional pension scheme option. **Whilst it is clear that communication to employees of the risks involved with CDC is essential from the outset of such a scheme (as benefits may be reduced if the scheme goes into deficit), the enhancement in returns that could flow from a large, well-governed collective scheme may offer a better long-term pension outcome than 'traditional' DC pension schemes and plans**. In legislating for such a scheme, it will be vital that employers can be assured that Parliament will not be able to add extra financial and regulatory requirements on employers post scheme establishment in the way they have with defined benefit schemes, contributing to their 'en masse' closure.

More Flexibility

4. **Given that younger generations will both work and retire more flexibly than in the past, we believe it is important to evolve consistent flexibility across the pensions system, instead of at present where flexibility is only available to those aged 55 and over**.

5. For example, under Freedom and Choice, anyone over the age of 55 can use their pension pot tax efficiently for multiple legitimate purposes such as paying off their mortgage. However, for savers under 55 (who might for example want to save for a deposit – i.e. the first part of the same property transaction), access to pensions saving is currently only possible at the expense of a penal tax charge of 55%. **Given the increased flexibility anticipated in the working lives of younger generations, and to encourage, rather than crowd out pensions savings, we believe that it would be helpful to provide some limited, but consistent, tax efficient flexibility around the use of DC pension savings during the accumulation phase**.

6. Specifically, to encourage younger employees to commence meaningful pensions savings earlier and at higher levels than at present, the ACA calls for extending pension flexibility to reflect their competing savings needs, and to reflect the evolving lines between working and retirement. We believe this can be achieved as follows:

- **Allow a single, limited, one-off pension withdrawal at any time in the "accumulation" phase, to be used in certain specified circumstances. This could include funding a property deposit or other very specific lifetime events such as providing income during an extended period of parental leave**; and

- **Tax the withdrawal (in headline terms) in a consistent way to existing withdrawals under the pension freedoms**.

7. While further discussion needs to take place on specifically how much can be withdrawn, and on taxation of such withdrawals, we believe extending pension flexibility to younger generations will help remove many of the barriers associated with significant pension saving, while allowing younger employees to efficiently accumulate their employer's matching contributions and access an 'investment

strategy' geared towards delivering better outcomes over time than a strategy of simply holding cash.

8. While we do not propose a specific limit, we note that a sum of £30,000 is regarded as 'trivial' for those withdrawing their pension pots at older ages. It could be argued that access to a sum of similar quantum should be made available for younger savers, subject to adequate safeguards and incentives, given they have more time to replace any amount withdrawn.

9. **We believe the above proposal will help augment a culture of saving. Ultimately, we believe younger people would be significantly more inclined to put money away if they know a proportion of it can be accessed flexibly (consistent with their flexible working lives), rather than it being tied away for the next 40 years**. Because of these behavioural factors, we believe that the overall impact of the change due to behavioural effects would be to increase rather than reduce long term retirement savings accumulation.

10. Clearly, detailed consideration would need to be given to regulation surrounding this change, investment considerations (such as the appropriate default funds available to younger members intending to withdraw funds) and obtaining buy in from employer sponsors of DC schemes. However, from an employer perspective, with much current focus on employee financial wellbeing, and the risk in future of having an ageing workforce that can't afford to retire, we believe industry would likely be supportive of developments in this area.

Pensions Dashboard

11. **We are supportive of the pensions dashboard initiative with Government requiring schemes to participate, with adequate notice, and protections for trustees and sponsors from prosecution should members' personal data be illegally obtained from the dashboard(s)**. We feel it is essential that the dashboard(s) provides information via a link to members' State pension entitlements with, ideally, the government's gateway verification system used by members to access both their private and State pension benefits via the dashboard(s).

ISA savings and 'Sidecars'

12. The Government should commit to **simplify the ISA product range** so there is just one product for adults (as opposed to multiple products at present) which they can save into for any purpose. Competing products are unhelpful and are confusing for those who are unsure where to place modest savings.

13. **We welcome the trial of a 'sidecar' savings scheme running alongside AE scheme membership** as a means of encouraging those on lower incomes to save, whilst retaining flexibility between their pension and non-pension savings.

State Pensions

14. **We believe that the commitment to retain the 'triple-lock' should be re-examined**. Whilst we appreciate the political risk involved, we recommend that the State Pension should be increased either in line with earnings or be set

annually as part of the welfare state components of the Budget, taking into consideration a number of factors (including changes in earnings and prices, and pensioners' income and consumption needs in general). Increases to the State Pension should balance affordability with adequately rewarding those who have contributed, whilst also preventing wide-scale pensioner poverty.

15. Increases in the State Pension Age (SPA) have been slow to follow behind much larger advances in longevity, meaning State pension costs have grown markedly. The Government should take the necessary legislative steps so the **State Pension Age increases to age 68 over the period 2037-2039** as recommended by the *Independent Review of State Pension Age* final report.

Social care

16. The cost of supporting social care needs to be addressed as 'fudging' the issue is seriously impacting on NHS resources/performance and is also stretching personal and local authority budgets. **We believe that a longer-term solution requires a range of options to suit different age groups and we welcome the Government outlining a comprehensive approach that encompasses ideas such as tax-free social care vouchers for those supporting older relatives in care, making it easier to make provision via accessing pension savings, realistic caps on individuals' contributions to care and the longer-term consideration of a social insurance scheme that might be suitable for younger people.** Such an approach needs to be part of the integrated savings policy for later life that ideally draws on cross-party support.

Statistical Appendix: ACA 2018 Pension trends survey results

The survey was conducted by the Association of Consulting Actuaries (ACA) in the summer of 2018 for online completion and was circulated to UK employers of all sizes, selected on a random basis. Responses were received from 349 employers with over 550 different types of pension arrangements – both open and closed.

Employers responding to the survey: background data

Table 1

Breakdown of employers responding to survey (by number of employees)

1-9 employees	10-49 employees	50-249 employees	250-499 employees	500-999 employees	1000-4999 employees	5000 employees +
11%	22%	23%	12%	6%	18%	8%

Table 2

Number, types and status of pension schemes provided by employers responding to the survey

Percentages are of all employers with schemes	Employers with scheme type	Of which:			
		Open Used for AE	Open Not used for AE	Closed to new members, open to future accrual/contributions	Closed to new members and future accrual/contributions
Firm's contract-based DC arrangement	34%	23%	23%	17%	37%
Firm's trust-based DC scheme	16%	13%	22%	22%	43%
Master Trust scheme	59%	89%	3%	2%	6%
Other Multi-employer scheme	8%	8%	22%	22%	48%
Firm's defined benefit scheme	22%	12%	8%	36%	44%
Firm's mixed DB/DC scheme	14%	2%	9%	23%	66%

Changes in retirement ages

Table 3

Typical current retirement ages and how employers expect this to change by 2020 (when SPA reaches age 66) and by 2028 (when SPA reaches age 67). Figures in brackets are 2017 results.

	Current	By 2020	By 2028
Under 60	1% (1%)	<1% (1%)	- (-)
Age 60	10% (7%)	8% (3%)	1% (-)
Age 61-64	20% (22%)	12% (14%)	6% (9%)
Age 65	46% (53%)	15% (19%)	11% (13%)
Age 66-67	18% (13%)	51% (47%)	54% (44%)
Age 68-69	5% (2%)	11% (14%)	19% (21%)
Age 70	<1% (1%)	2% (1%)	8% (11%)
Age 71-75	- (1%)	- (1%)	1% (2%)

Pension contributions and automatic enrolment

Table 4

Median contribution rates as a percentage of earnings into pension arrangements provided by responding employers (by types of scheme). (Figures in brackets are 2017 figures from the *ACA 2017 Pension trends survey* report)

	Employer		Employee
Contract based DC	6% (5%)		3% (4%)
Trust based DC	6% (5%)		4% (4%)
Master Trust	1-2%% (1-2%)		2% (1%)
Other multi-employer schemes	3% (1-2%)		2% (1%)
Mixed DB/DC	16-20% (16-20%)		6% (5%)
Defined benefit	21-25% (21-25%)		6% (6%)

Table 5

Median employee opt-out rates on automatic enrolment (AE) and current 'cessation rate' (total percentage of eligible employees now withdrawn from automatic enrolment)

	1-9 employees	10-49 employees	50-249 employees	250-499 employees	500-999 employees	1000-4999 employees	5000 employees +
Actual on staging	26 - 30%	11 - 15%	6 - 10%	6 - 10%	6 - 10%	1 - 5%	1 - 5%
All median	← 6 – 10% →						

	1-9 employees	10-49 employees	50-249 employees	250-499 employees	500-999 employees	1000-4999 employees	5000 employees +
Current cessation rate	31 - 35%	16 - 20%	11 - 15%	11 - 15%	6 - 10%	6 - 10%	1 - 5%
All median	← 11 – 15% →						

Table 6

Changes in AE 'opt-outs' following April 2018 increase in minimum contributions

Change in AE opt-outs / cessations from April 2018	All employers	1-9 employees	10-49 employees	50-249 employees	250-499 employees	500-999 employees	1000-4999 employees	5000 employees +
Substantial increase	**4%**	12%	9%	3%	3%	-	2%	-
Modest increase	**8%**	18%	11%	4%	5%	10%	3%	7%
No change	**85%**	70%	80%	90%	89%	85%	90%	85%
Greater AE take-up	**3%**	-	-	3%	3%	5%	5%	8%

Table 7

Anticipated changes in AE 'opt-outs' following April 2019 increase in minimum contributions

Anticipated Change in AE opt-outs / cessations from April 2019	All employers	1-9 employees	10-49 employees	50-249 employees	250-499 employees	500-999 employees	1000-4999 employees	5000 employees +
Substantial increase	**8%**	24%	14%	6%	3%	5%	3%	4%
Modest increase	**17%**	41%	23%	10%	10%	15%	9%	15%
No change	**72%**	32%	63%	80%	80%	70%	86%	77%
Greater AE take-up	**3%**	3%	-	4%	5%	10%	2%	4%

Table 8

Percentage of employees not eligible for AE (for example, because their earnings are generally too low or because of age)

Not eligible for AE	All employers	1-9 employees	10-49 employees	50-249 employees	250-499 employees	500-999 employees	1000-4999 employees	5000 employees +
Median	**26-30%**	36-40%	31-35%	26-30%	16-20%	11-15%	11-15%	5-10%

Table 9

Employers' views on various proposals announced in the 2017 AE Review by DWP

	Strongly Agree	Agree	Undecided	Disagree	Strongly Disagree
Extend AE to those aged 18 or over	44%	37%	8%	7%	4%
Keep earnings trigger at £10,000pa income	7%	32%	13%	37%	11%
Contributions from first £ of earnings	21%	22%	32%	15%	10%
No increase in minimum contributions	9%	31%	13%	28%	19%

Table 10

Employers' views on the levels of minimum contributions they could support if the Government decided to increase minimum AE contributions from say April 2021. Median responses.

	All employers	1-9 employees	10-49 employees	50-249 employees	250-499 employees	500-999 employees	1000-4999 employees	5000 employees +
Median: Employer % + Employee %	**4% + 4% All earnings**	No increase on 2019	No Increase on 2019	4% + 4% All earnings	4% + 4% All earnings	5% + 5% All earnings	5% + 5% All earnings	5% + 5% All earnings

Defined benefit schemes and the DB White Paper

Table 11

What impact have the costs associated with defined benefit schemes had impact on the following?

	Major impact	Some impact	Negligible impact	No impact
Pay increases	1%	35%	53%	11%
Pension contributions into other schemes	6%	38%	36%	20%
Intergenerational fairness between current employees	4%	48%	32%	16%
Intergenerational fairness between current employees and retired/deferred members	4%	44%	38%	14%
Business performance	11%	44%	31%	14%
Business investment	18%	31%	28%	23%
Shareholder returns (e.g. dividends)	10%	16%	10%	64%
Management time spent on pensions	38%	39%	22%	<1%

Table 12

Employers reporting incidence of transfer requests by members from defined benefit schemes over the last year. Figures in brackets are 2017 results.

	Very low	Low - Fewer than 5% of members	5-10% of members	Over 10% of members
Incidence of transfer requests	32% (23%)	27% (30%)	27% (32%)	14% (15%)
Completed transfers	52% (36%)	30% (48%)	16% (9%)	2% (7%)

Employers' perception of the difficulty members are experiencing in finding advisers prepared to advise on pension transfers from defined benefit schemes

	Yes	No	Don't know
Had difficulty	28%	34%	38%

Table 13

The recent White Paper on Defined Benefit Pensions argues that in order to avoid cases like BHS/Carillion in the future, pensions law and the powers of the Pensions Regulator should be supplemented. Which proposals are supported by employers?

	Strongly Agree	Agree	Undecided	Disagree	Strongly Disagree
Give the TPR new powers to punish those who deliberately put scheme at risk by introducing punitive fines	39%	32%	15%	4%	10%
Consider new criminal offences to punish those found to have committed wilful or grossly reckless behaviour including, where appropriate, disqualification of company directors	44%	39%	6%	3%	8%
Strengthen existing notifiable events framework and clearance regime so proper regard of pension considerations in corporate transactions	33%	45%	4%	11%	7%
Ensure TPR can obtain the information required to conduct investigations supported by penalties to drive cooperation	39%	38%	16%	2%	5%
The TPR powers are already adequate if used	10%	21%	24%	34%	11%

Table 14

The Defined Benefit White Paper looks to strengthen the Pension regulator's ability to enforce defined benefit scheme funding standards by providing clearer guidance on what is meant by prudence. What are employers' views on the following?

	Strongly Agree	Agree	Undecided	Disagree	Strongly Disagree
Strengthening guidance needed through a revised Funding Code of Practice	15%	26%	28%	24%	7%
More specific guidance could undermine scheme specific funding	28%	34%	20%	12%	6%
Tougher approach could increase conflict with Regulator's sustainable business growth objective	34%	32%	29%	3%	2%
Regulator should target minority of unscrupulous employers and severely distressed schemes rather than revise current Code	45%	27%	11%	16%	1%

Table 15

Should the law be changed so defined benefit schemes can reduce pension increases if continuing to provide increases at the level in scheme rules will severely and adversely affect the employer?

	Yes
Yes, all schemes should have option to move from RPI to CPI	33%
Yes, so long as the trustees and employer agree	40%
Yes, so long as members are also given chance to opt to go into the PPF instead	5%
Yes, but only if the alternative is likely to be the employer's insolvency + scheme in PPF	35%
No, employers should stand by current scheme rules	16%

(More than one answer possible)

Table 16

Employers' views on the arguments in the recent Defined Benefit White Paper that there would be a benefit in terms of costs, administration and governance from consolidating pension schemes run by businesses into 'superfunds'.

	Strongly Agree	Agree	Undecided	Disagree	Strongly Disagree
Is consolidation generally a good thing?	6%	34%	18%	29%	13%
Support for initiatives to offload DB scheme liabilities to a consolidator at less than full buy-out by way of a premium	16%	17%	22%	30%	15%
Is there reputational risk for employers offloading liabilities to vehicles with lower capital requirements than insurers	11%	41%	37%	6%	5%
Are consolidation decisions more likely if schemes are able to make legal changes allowing benefits to be simplified on the way in to the consolidation vehicle	8%	51%	39%	1%	1%

Pensions Dashboard, Pension tax and Social Care reforms

Table 17

The Government and a number of organisations are supporting the idea of a pensions dashboard. What are employers' views on the following:

	Yes	No	Don't know
Need more government-led initiatives to raise employee engagement with pensions	81%	15%	4%
Employers could do more to support employees' pension planning	74%	24%	2%
Do members generally have access to inter-active websites giving them information about current savings/projected pension outcomes	64%	34%	2%
Should there be more than one dashboard?	19%	56%	25%
Should all schemes be required by legislation to provide data to the pensions dashboard?	61%	28%	11%
If the dashboard goes ahead, are you concerned about data cleansing or security issues?	48%	43%	9%

Table 18

Impact of restrictions in pension tax relief over recent years on businesses. Figures in brackets are 2017 results.

	Yes
No impact	46% (36%)
Caused senior / higher income employees to leave firms' schemes	30% (52%)
Led to pressures to revise pay and benefits package	37% (36%)
Caused business to reconsider its pension arrangements	32% (22%)
Been influential in decision to close pension arrangements	11% (17%)
Increase in employees requesting reduced benefits to pay tax charges ('scheme pays')	18% (11%)

(More than one answer possible)

Table 19

Views on whether pension tax relief should be reduced or targeted in a different way

	Strongly Agree	Agree	Undecided	Disagree	Strongly Disagree
Current structure too complicated/needs simplification	22%	37%	8%	26%	7%
Reform should target more help for lower income groups	23%	52%	14%	4%	7%
The Lifetime Allowance should be abolished	19%	34%	19%	27%	1%
Tapered Annual Allowance should be re-thought	31%	47%	21%	1%	<1%
Tax-free lump sum should be less generous	10%	19%	12%	28%	31%
Salary sacrifice should end	10%	22%	11%	25%	32%

Table 20

Social care costs in old age are likely to increase markedly as life-spans extend in the years ahead. What are employers' views on the following longer-term approaches?

	Strongly Agree	Agree	Undecided	Disagree	Strongly Disagree
Social care costs borne by individuals should be capped	31%	41%	15%	10%	3%
Tax changes should be made that encourage social care costs being met from private pensions	4%	37%	19%	31%	9%
Costs should be met by higher levels of tax or NI on employees	15%	32%	33%	9%	11%
Costs should be met by higher levels of tax or NI generally	14%	52%	14%	7%	13%
Employees working past SPA should pay NI to help meet costs	11%	34%	17%	18%	20%
Inheritance tax should be reformed allowing more tax to go towards social care	16%	21%	17%	34%	12%
Social care costs in old age should be met by a compulsory social care insurance scheme	7%	12%	52%	14%	15%

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