ASSOCIATION OF CONSULTING ACTUARIES

Pensions:
Maintaining the Momentum

Final Report of ACA 2019 Pension trends survey

Survey results confirm cessation rates from automatic enrolment should not stand in the way of increases in minimum pension contributions in the near future

Employers are supportive of key measures in the Pension Schemes Bill, but calls grow for simplification of defined benefit and pension tax regimes to maintain the momentum of reform

Survey conducted by the Association of Consulting Actuaries

PUBLISHED – 16 JANUARY 2020

At a glance survey results

This year's survey included responses from 308 employers of all sizes

Looking back...

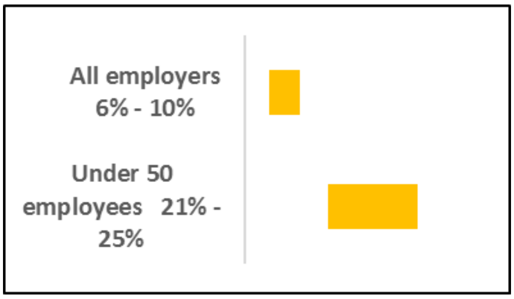
Auto-enrolment (AE)

81%

of employers say the April 2019 increase in minimum AE contributions had no adverse impact on scheme participation

AE cessation rates

Median current cessation rates as a % of eligible employees are low, but small employers are reporting much higher levels of employees leaving AE schemes...

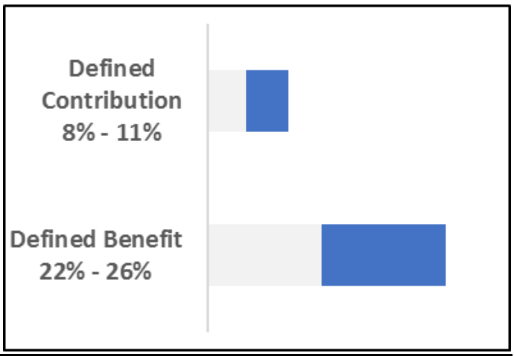


Employees not eligible for AE

Over **31%** of employees at firms with fewer than 50 employees are not eligible for auto-enrolment

Pension Contributions

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



Looking forwards...

64%

say they are content to see total minimum contributions increase to at least 10% of earnings from April 2021

48%

support the introduction of Collective Defined Contribution schemes, although only **8%** of employers say they are inclined to introduce such a scheme

24% expect the typical retirement age to exceed 67 by 2028

56%

oppose the Pension Dashboards being launched initially covering only some types of schemes and **70%** oppose their launch without the inclusion of State pension benefits

64%

say it will take more than 2 years to fully equalise pensions for the effect of unequal GMPs in their schemes

55%

say DB scheme consolidation is more likely if legal changes allowing benefit simplification are allowed

75%

want the current pension tax regime reformed even if some people are worse off and **69%** want to see the Tapered Annual Allowance abolished

Chair's Introduction: Maintaining the Momentum
Final Report of ACA 2019 Pension trends survey

Our 2019 survey questionnaire this year was issued in the summer shortly after the April 2019 increase in automatic enrolment (AE) minimum contributions. It enquired about cessation rates post-staging, typical levels of pension contributions across schemes and what appetite there is for further increases in contribution levels. It also examined measures that were expected in the *Pension Schemes Bill* tabled later in the year (and now re-tabled), as well as employers' views on other topical issues such as pension tax reforms, GMP equalisation strategies and social care reform.

Over the last year, we have seen further initiatives tabled by bodies such at the Pensions and Lifetime Savings Association (PLSA)[1] and the Institute & Faculty of Actuaries (IFoA)[2] outlining what levels of retirement income people might target – from the minimum through to comfortable – and the savings levels needed over the years to achieve these target incomes. Our survey findings show there is an appetite from employers – part of what we see as an essential addition to the new Government's pensions and savings strategy for the Parliament – for a gradual, but essential, increase in the default level of savings into defined contribution schemes by millions of workers. Without commitment from Government to ensure that sums saved into AE are increased, 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. The Government needs to 'maintain the momentum' on AE (as it said it would in its 2017 AE Review[3]) by implementing the recommendations made and building upon them over this Parliament.

Our survey also considers other reforms. Pension taxation reform involving greater simplification, to coin a phrase, cannot be for the few not the many. The survey findings support a thoughtful and collaborative review of the regime, even if some knee-jerk action for NHS clinicians is made, given the clear evidence that, for example, the tapered annual allowance is all but inoperable. Social care too requires a range of innovative approaches to fund for the longer-term, not just a short-term sticking plaster from the taxpayer. And, of course, whilst the re-tabled *Pension Schemes Bill* will address certain defined benefit scheme reforms that are needed, our survey findings stress that some important simplifications[4], perhaps facilitated by GMP equalisation and conversion, remain a priority if millions of members are to better understand the very valuable benefits of such schemes. Again, building on the momentum for reform is needed.

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

Contents

[1] Retirement Living standards, published by the PLSA, October 2019.
[2] Savings Goals for Retirement, published by the IFoA, October 2019.
[3] 2017 Automatic Enrolment Review: Maintaining the Momentum, published by DWP, December 2017
[4] Simplifying pension benefits – is it time for the Pensions Pound? Published by ACA and Royal London, November 2018.

Executive Summary

The Pension trends survey was conducted by the Association of Consulting Actuaries (ACA) in the summer of 2019 for online completion and was circulated to UK employers of all sizes, selected on a random basis. Responses were received from 308 employers sponsoring over 510 pension schemes.

Key findings of Final Report

Retirement and State Pension Ages

- **14% of employers saying the typical retirement age in their firm is now above age 65.**
- **86% of employees currently retire at 65 or younger – a percentage that employers say is set to be reduced to just 35% by the end of 2020 (by which time SPA will be age 66) and then 18% by 2028 (when by April of that year SPA increases to age 67).**

Pension contributions

- **Median employer contributions into defined contribution (DC) pension schemes across our sample are between 4 – 7% of earnings – much the same as a year ago, but with contributions into AE schemes doubling. Employee contributions range between 4 – 5% of earnings, slightly up on a year ago – with again the biggest change being contributions into AE schemes.**
- **Median combined employer and employee contributions into defined benefit arrangements are between 22-26% of earnings (excluding deficit repair contributions), slightly down on 2018 levels, but indicative of the 'real cost' required to generate a more comfortable retirement income.**

Auto-enrolment opt-outs and cessations

- **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 5,000 employees, rising to between 6-10% across employers with between 250-4,999 employees, to between 11-15% for those employing 50-249 employees and to between 16-20% at employers with fewer than 50 employees.**
- **The current median cessation rate (including initial opt-outs) is also 6-10% of eligible employees (down from 11-15% last year) across all employers, but with considerably higher cessation rates at employers with fewer than 50 employees.**
- **83% of employers said the April 2018 increase in minimum AE contributions did not impact adversely on scheme participation and similarly 81% said the same following the April 2019 increase.**
- **However, within the overall figures, the impact of the increases in minimum contributions on cessation rates in firms employing fewer than 50 employees, was much more marked. Some 27% of these firms reported substantial increases in cessations post-April 2019 and 17% post-April 2018, with also much higher 'modest increases' in cessations in both years compared to larger employers.**

Auto-enrolment: the future and appetite for higher contributions

- **85% of employers felt a decision to extend AE to those aged 18 would be welcomed. There were stronger views than a year ago in favour of other reforms, with 82% saying contributions should be from the first £ of earnings and 64% saying they are content with increases in minimum contributions. However, 60% favoured retaining the earnings trigger at £10,000pa income.**
- **Should the Government ultimately decide to increase minimum AE contributions from, say April 2021, the median acceptable level supported by employers was a minimum total AE contribution of 10% of total earnings with a minimum employee contribution of 5%, subject to a cap. Larger employers supported total contributions of at least 12% of total earnings.**

Continued…

- As might be expected, whilst smaller firms are reluctant to see any further increases in AE minimum contributions, larger employers were prepared for total minimum contributions to increase to at least **12%** of earnings, with the largest employers looking for the earnings cap to be removed.

CDC Schemes

- **48%** of employers support the CDC option being introduced, although only **8%** of those sampled said they were presently inclined to consider introducing a scheme.
- Whilst **29%** thought CDC schemes would probably offer a better pension outcome for members, **66%** felt there were communication challenges in explaining the risks of such schemes to members.
- **48%** of employers felt there needed to be an ability to set up CDC Master Trusts for smaller employers.

Other findings from interim survey reports: pension taxation

- **44%** (up from 30% last year) of responding employers said the impact of current restrictions in relief have caused senior/higher income employees to leave their firms' pension schemes, disconnecting more and more senior decision-makers from personal interest in this key element of the employee package.
- **21%** report that skilled staff are retiring earlier or working fewer hours, supporting the evidence seen from the NHS schemes that the pension tax regime is distorting behaviour.
- **75%** said the current tax structure was too complicated and needs simplification.
- **67%** say reform should target more help on lower income groups, even if some other people are worse off as a result.
- **69%** said the Tapered Annual Allowance should be abolished, even if this requires a reduction in the general annual allowance.

Workplace savings schemes and flexible savings options

- **9%** of employers presently offer a corporate ISA or other form of workplace savings in addition to a pension scheme, but **13%** felt this was an option they might consider in the next 2 years.
- **53%** said aggregate employee savings would increase if there was greater flexibility in workplace savings options, with **28%** saying they would consider paying an employer contribution into a more flexible savings vehicle that could be used for retirement savings and other purposes, such as house purchase, with due safeguards.

Pensions dashboards

- **76%** of employers say schemes should be required by legislation to provide data to the pension dashboards, up from 61% a year ago.
- **70%** are opposed to dashboards being launched without the inclusion of State pension benefits.

Other findings: Social Care

- Over 60% of employers agree with higher social care costs being supported by higher levels of tax or NI and by employees working past State Pension Age paying employee NICs, but many who support these tax measures do not 'strongly agree' with them.
- 47% support a new compulsory insurance scheme for those below a certain age to help meet future social care costs, up from 19% last year.

Defined Benefit Schemes: Pension Schemes Bill and other measures

- 78% of employers support a new Funding Code for defined benefit schemes that provides a more straightforward fast-track route to demonstrate compliance, with schemes also able to choose a more bespoke approach.
- Over 70% support the Code including how a suitable long-term objective (LTO) is developed by trustees; clearer guidance to stronger employers on funding deficits in a shorter period; how closed schemes should reduce reliance on covenant and how trustees could demonstrate whether risk in their investment strategy can be supported.
- Perhaps reflecting the omission of the measure from the 'first' *Pension Schemes Bill*, just 30% currently support initiatives to transfer DB scheme liabilities to a consolidator at less than full buy-out by way of a premium, but with 55% saying consolidation was more likely if legal changes are made to allow benefits to be simplified on the way into a consolidation vehicle.
- 71% of employers also believe that the law should be changed so DB schemes can reduce pension increases if continuing to provide increases at the level in scheme rules will severely and adversely affect the sustainability of an employer.

GMP equalisation

- 64% of employers running defined benefit schemes say it will take more than 2 years to fully equalise pensions for the effect of unequal GMPs in their schemes. Administrative complexity and time commitments topped the 'biggest challenges' in dealing with GMP equalisation.
- 43% of these employers say they are 'likely to opt for GMP conversion' (method D2) with 31% leaning towards the year on year calculations and dual records (method C), with the remainder undecided.

Pension transfers

- Whilst 22% of employers reported transfer requests increasing in number, 30% said they were decreasing.
- 17% of employers (down from 41%) say the incidence of transfer requests from defined benefit schemes exceeds 5% of scheme members, but with just 9% reporting completed transfer settlements exceeding 5% of scheme members.
- 43% of employers said it was their perception that employees were experiencing difficulty in finding IFAs prepared to advise on pension transfers from DB schemes.

Section 1 – ACA policy recommendations for the new Government

During the recent general election campaign, we issued a manifesto of policy proposals that we recommended the incoming Government pursue. Above all, we called for the political parties to commit to pursuing a more cross-party consensus on long-term pensions and social care policies, along the lines of that enjoyed during the development and implementation of automatic enrolment.

Following the election of a new majority Government, we have updated our policy recommendations in the light of the new circumstances. The re-tabled *Pension Schemes Bill* features the measures outlined in the original Bill, many of which, such as support for the pension dashboards, CDC and DB regulatory reforms, are commented upon – mostly favourably – by employers responding to our *2019 Pension trends survey* findings outlined elsewhere in this report. The problem of 'net pay' schemes may also be addressed, given the Government's manifesto commitment, in the forthcoming Budget.

Our policy recommendations that look to maintain the momentum of reform are:

1. **There is an urgent need now for significant simplification of the pension tax regime, with clear policy goals and extensive consultations to minimise unintended consequences**: The new Government needs to think carefully on how any further pension tax reforms should be progressed, given the considerable personal financial implications for public and private sector employees (in both DB and DC schemes). Knee-jerk policy changes benefiting one group of employees should be avoided at all costs given the clear evidence that, for example, the tapered annual allowance is all but inoperable.

   We strongly urge that any measures are for the long term, properly thought through, involving widespread consultations, so that best endeavours are made to smooth out the problems which have resulted from numerous tweaks made in the regime in recent years. We accept that there are challenges especially if the policy is that changes are overall to be fiscally neutral (noting that only part of the published "cost of relief" relates to future accrual).

2. **A fresh boost to auto-enrolment (AE), including increasing minimum AE contribution rates and widening coverage during the Parliament**: The Government should set out their plans to build on minimum AE contribution rates over the next Parliament – ideally the *Pension Schemes Bill* would have set out a timetable or implemented some of the 2017 AE Review[5] recommendations given the generally lower than expected opt-out and cessation rates found in this, our 2019 survey report.

   The present 8% of qualifying earnings (which equates closer to 4% of earnings for those on lower incomes) is inadequate to provide for a sufficient income in later life. Minimum AE contributions should increase to 12% of total earnings over the period (and then to 16% by around 2030), with costs shared between employers and employees. The earnings threshold (which currently stops millions being signed up for AE) needs to be reduced or removed and AE needs to be adapted to include the growing number of self-employed and those engaged in the 'gig economy'. Small and micro-employers should be helped to meet the extra costs by an increase in the Employment Allowance, reducing their annual employers' NICs. **The recent election manifestos of the major parties seemed to suggest a consensus is possible in this policy area**.

3. **There is a need for legislation to facilitate the wider simplification of DB schemes, with GMP equalisation/conversion providing the perfect catalyst**: Subject to certification, **defined benefit schemes should be able to simplify their benefit structures to improve member understanding of their benefits[6]**, but also with the potential to materially reduce ongoing scheme administration costs, facilitate more efficient hedging, and attract potentially more attractive buy-out options, improving benefit security.

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[5] 2017 Automatic Enrolment Review: Maintaining the Momentum, published by DWP, December 2017

[6] Simplifying pension benefits – is it time for the Pensions Pound? Published by ACA and Royal London, November 2018

This simplification would make it easier for defined benefit schemes to include data in pension dashboards and help members to better understand the total value of their benefits. It should complement the largely cross-party agreed reforms in the re-introduced *Pension Schemes Bill* in the new Parliament, encompassing a workable new DB Funding Code and appropriate and proportionate TPR powers – as well as guidance and legislation to deal with GMP equalisation and the conversion option.

4. **There should be an extension of pension freedoms to younger savers (subject to appropriate safeguards and incentives) to promote intergenerational fairness**: To provide greater incentives for higher levels of pension savings by younger employees, the Government should relax current rules and implement an extension in pension freedoms allowing early access after 10 years of savings to a proportion of individuals' pension funds currently available only from age 55, for example to help fund house deposits and/or to meet a short and specific list of other eventualities. **There is a very real danger that younger savers feel the pension reforms of recent years have unfairly favoured older savers, causing the financial gulf between generations to grow to unacceptable levels**.

5. **Action needed on the overdue intergenerational commitment to a better social care regime**: Successive Governments have avoided taking decisions to address the cost of supporting social care for the elderly, and it is all too clear this is seriously impacting on NHS resources/performance and stretching many elderly individuals' and local authority budgets.

   We believe that a longer-term approach requires a range of practical and financial solutions to suit different age groups and we look to the new Government to outline a comprehensive social care package that encompasses ideas such as tax-free social care vouchers for those supporting older relatives in care; consideration of tax reforms whereby pension income used to pay for care is tax-free; tax-free pension withdrawals if used to purchase care insurance products and a social insurance scheme that might help younger people better to plan ahead than the present older generations have been able. Such an approach needs to be part of the integrated savings, pensions and elderly care policy for life. **Again, we feel there would be value in the Government trying to find some greater consensus between the political parties in developing long-term reforms, following an initial and substantial boost in taxpayers' support to overcome the shorter-term financial challenges**.

6. **State Pension sustainability needs to be maintained**: We acknowledge that the 'triple-lock' is set to be retained by the Government until probably 2024/2025 even though this may further widen intergenerational differences in the indexation of benefits. However, we continue to recommended for the longer-term 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).

   Additionally, given the rapid growth in the proportion of the population that is elderly, we believe the incoming Government should confirm that the State Pension Age will increase to age 68 over the period 2037-2039 as recommended by the Independent Review of State Pension Age[7], so there is no confusion that due notice has been given. This policy reflects both the extension in working lives in recent years and lengthening lifespans that have not been reflected adequately in SPA increases to date.

[7] Final report of the Independent Review of State Pensions Age, March 2017.

Section 2 - Survey respondents: background information

Our 2019 survey report, following a questionnaire broadcast in the summer of this year, received responses from 308 employers sponsoring over 510 pension schemes covering every size of business.

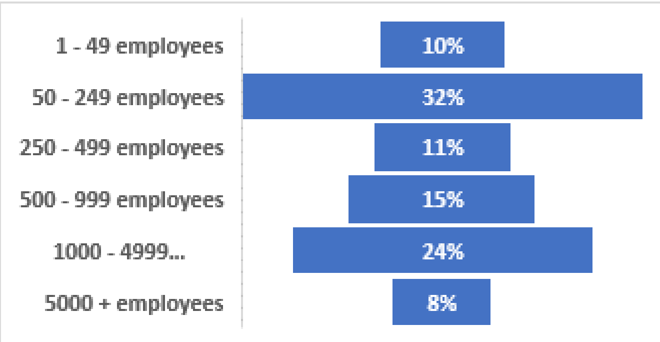
Over a half of the responses this year came from firms employing more than 250 employees, with a third replying from organisations with 1,000 employees or more (see *Figure 1*, below). The sample does not represent a 'mirror image' of UK employers broken down by size. If it did, over 99% of the sample (rather than 10%) would be drawn from firms with fewer than 50 employees[8], but it provides a good indication of trends across all types of enterprises, as it has done since its inception in 1997.

As we write this report, around 85% of 'eligible' employees are now in workplace pension schemes[9] (with 10.2 million employees enrolled through automatic enrolment (AE)), with over 1.6 million employers having met their AE declaration of compliance requirements.

But pause on the figures. These Government figures could be felt to be a little misleading in that those 'not eligible' for AE schemes, close to 10 million, are omitted from the above statistic as this refers to just 'eligible employees'. Those presently not enrolled into AE schemes 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[10] and the non-pensioned self-employed (around 4 million), is much closer to 60% of the total workforce. The 2017 Review of automatic enrolment proposed 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. But this recommendation – along with others – has not been included in the latest *Pension Schemes Bill* meaning current restrictions limiting wider pension coverage remain as is.

"Huge progress has been made in extending the numbers covered by pensions – but still close to 14 million private sector workers remain outside the pensions tent. AE policy updates are essential"

Figure 1: Organisations responding to the survey



(Source: ACA 2019 Pension trends survey, Table 1, page 22)

Of the employers responding to the survey at July 2019:

- **The principal types of open pension schemes run by the employers responding to the survey are defined contribution in structure with only 26% employers now offering an open DB arrangement to new employees** (see *Figure 2,* page 10).
- **52% of employers in the sample engage workers as part of the 'gig economy' for whom pension provision is not required under AE legislation. A fifth of employers engage over 5% of the workers in this way** (see *Table 2,* page 22)**.**

[8] BIS Business Population Estimates 2019, published October 2019
[9] AE Commentary and Analysis, April 2018-March 2019, published by TPR, October 2019
[10] Cessations are those employees who decide to leave their AE scheme after the initial one month 'opt-out' period.

The survey also found:

➢ **The majority of open defined contribution schemes are also used for auto-enrolling either new or all employees, with contract-based DC schemes and DC Master Trusts the most popular types of vehicles** (see *Figure 2*, below).

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, with this year some 74% of new members unable to join their firm's DB scheme.

"In our sample, only one in four defined benefit schemes are open to new entrants. 40% are now entirely 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	46%	83%	7%	5%	5%
Firm's trust-based DC scheme	21%	66%	6%	5%	23%
DC Master Trust scheme	39%	98%	2%	-	-
Other Multi-employer scheme	12%	14%	14%	47%	25%
Firm's defined benefit scheme	41%	21%	5%	33%	41%
Firm's mixed DB/DC scheme	2%	-	40%	20%	40%

(Source: ACA 2019 Pension trends survey, Table 3, page 22)

Section 3 – Retirement ages

With the ONS projecting that 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 (age 66 from October 2020). And there has also been a reported trend for retirees to return to work post age 65. Individuals' circumstances and extended healthy lifespans for some and a strong employment market are seen as contributory factors.

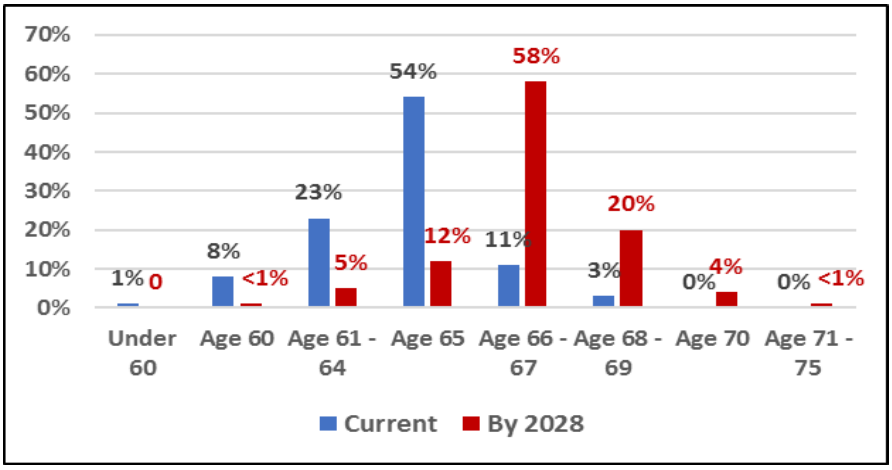
Our survey largely endorsed these findings with:

- **14% of employers saying the typical retirement age in their firm is now above age 65** (see *Figure 3*, below)**.**

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

- **Over 24% expect 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 2019 Pension trends survey, Table 5, page 23)

- This overall change by 2028, in under a decade, could be very pronounced. According to the survey results **86% of employees currently retire at 65 or younger – a percentage that employers say is set to be reduced to just 35% by the end of this year (by which time SPA will be age 66) and then 18% by 2028.** Given the tight labour market at present, this change – driven for whatever reasons – may be viewed as extremely helpful in meeting employers' needs (assuming no post-Brexit reverse in employment and vacancies) or, alternatively, as dangerously obstructive by younger employees seeing their career advancement blocked.

Section 4 - Pension contributions and auto-enrolment (AE) schemes

Our survey found:

- **Median employer contributions into defined contribution (DC) pension schemes across our sample are between 4 – 7% of earnings – much the same as a year ago, but with contributions into AE schemes doubling. Employee contributions range between 4 – 5% of earnings, slightly up on a year ago – with again the biggest change being contributions into AE schemes, helped no doubt by the April 2019 increase in minimum contributions** (see *Figure 4*, below).

These levels for DC schemes, many set up ahead of automatic enrolment (AE) are much the same as five years ago and suggest there has been no levelling down of contributions into these types of schemes for existing employees. Indeed, there is evidence over the last two years that employers have lifted their contributions, perhaps in part due to the narrowing differential between contributions being paid into schemes on behalf of longer-term employees as opposed to newer employees, many of whom have been placed, to date, in lower-cost AE schemes.

- **Median combined employer and employee contributions into DC Master Trust arrangements are now reported at 8% of total earnings, which exceeds the level required under AE rules, which is 8% of qualifying earnings between presently £6,136 and £50,000pa.**
- **However, median combined employer and employee contributions into defined benefit arrangements are between 22-26% of earnings (excluding deficit repair contributions), slightly down on 2018 levels, but indicative of the 'real cost' required to generate a more comfortable retirement income**.

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 2018 figures from the *ACA 2018 Pension trends survey* report)

	Employer		Employee
Contract based DC	5% (6%)		5% (3%)
Trust based DC	7% (6%)		4% (4%)
DC Master Trust	4% (1-2%)		4% (2%)
Other multi-employer schemes	5% (3%)		4% (2%)
Mixed DB/DC	11-15% (16-20%)		5% (6%)
Defined benefit	16-20% (21-25%)		6% (6%)

(Source: ACA 2019 Pension trends survey, Table 6, page 23)

This year's survey also found that:

- **22% of employers changed their pension offering in some way over the last year** (see *Table 7*, page 23*)* **and**
- **20% of employers reported employees showing greater interest or concern about the security of their pensions, with 13% reporting greater demand for improved pension communications, but only 6% expressing greater interest in socially responsible and environmental investment** (see *Table 8,* page 23).

Employee opt-out and cessation rates and those 'not eligible' for AE

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[11] (increasing to around 13% - 23% amongst small and micro employers[12]). Overall, data to date provided by DWP[13] 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[14].

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 5,000 employees, rising to between 6-10% across employers with between 250-4,999 employees, to between 11-15% for those employing 50-249 employees and to between 16-20% at employers with fewer than 50 employees.**

- **The current median cessation rate (including initial opt-outs) is also 6-10% (down from 11-15% last year) of eligible employees across all employers, with considerably higher cessation rates at employers with fewer than 50 employees** (see *Figure 5*, below).

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). Cessation rates reported by employers in this sample will be due to employees moving away from their firm, but also appears from our findings to be due to either an unwillingness or inability to afford (higher) contributions into the longer-term, most particularly by employees based at firms with fewer than 50 employees.

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)

Opt-out rate	1-49 employees	50-249 employees	250-499 employees	500-999 employees	1000-4999 employees	5000 employees +
Actual on staging	16 – 20%	11 – 15%	6 – 10%	6 – 10%	6 – 10%	1 – 5%
All median	← 6 – 10% →					

Cessation rate	1-49 employees	50-249 employees	250-499 employees	500-999 employees	1000-4999 employees	5000 employees +
Current cessation rate	21 – 25%	11 – 15%	6 – 10%	1 – 5%	1 – 5%	0
All median	← 6 – 10% →					

(Source: ACA 2019 Pension trends survey, Table 9, page 24)

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 and April 2019.

- **83% of employers said the April 2018 increase in minimum AE contributions did not impact adversely on scheme participation and similarly 81% said the same following the April 2019 increase** (see *Figure 6*, below)**.**

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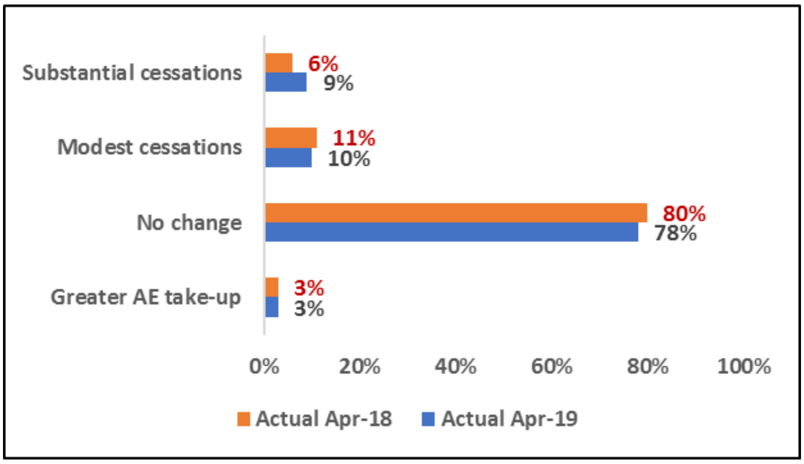
[11] See Employers Pension Provision Survey 2017, published by DWP, June 2018, page 70.
[12] See Automatic enrolment: Quantitative research with small and micro employers, published by DWP, June 2018, pages 48-56.
[13] See Employers Pension Provision Survey 2017, page 72.
[14] Ibid, page 76.

- **However, within the overall figures, the impact of the increases in minimum contributions on cessation rates in firms employing fewer than 50 employees, was much more marked. Some 27% of these firms reported substantial increases in cessations post-April 2019 and 17% post-April 2018, with also much higher 'modest increases' in cessations in both years compared to larger employers** (see *Table 10,* page 24)**.**

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



(Source: ACA 2019 Pension trends survey, Table 10, page 24)

> ***"Those not eligible to be auto-enrolled total over 9.6 million employees"***

Another factor that disguises the number of employees who are not enrolled in AE 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 9.6 million employees[15] (plus the self-employed[16]).

- **Our survey found the median level of those not eligible to be automatically enrolled was between 11-15% of employees, with this rising to 31-35% at small employers** (see *Figure 7*, below)**.**

We comment in this report on the need for AE policy to move ahead, with caution, to cover a wider grouping of workers, accepting that there may be a need to help smaller employers a little more given the Government's other policy commitment to raise minimum wage levels, which inevitably impacts on many smaller firms where pay levels are on average generally lower.

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

Employees not eligible for AE	All employers	1-49 employees	50-249 employees	250-499 employees	500-999 employees	1000-4999 employees	5000 employees +
Median	**11-15%**	31-35%	16-20%	11-15%	5-10%	<5%	<5%

(Source: ACA 2019 Pension trends survey, Table 11, page 24)

There will be those who feel more employees who are presently ineligible for AE should request to be voluntarily covered by AE which, in certain circumstances, will entitle them to receive a minimum employer's contribution. However, our survey found:

- **Requests to 'opt-in' to AE were confined largely to employees in larger firms with only 6% of employers across the sample as a whole reporting interest** (see *Table 12,* page 24).

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[15] Automatic Enrolment Declaration of compliance report, July 2012 – end December 2019, published by the Pensions Regulator in January 2020.

[16] ONS UK Labour Market, December 2019, figures report 4.9 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).

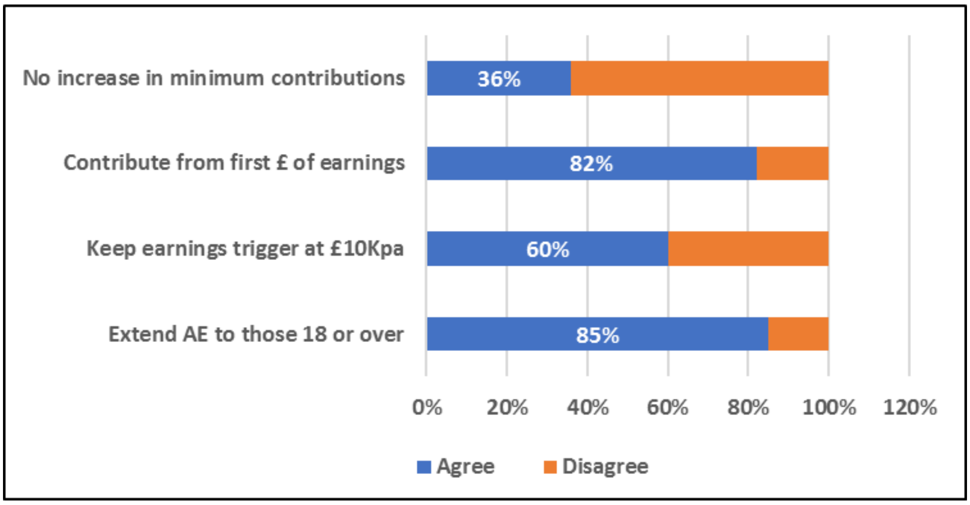
Automatic Enrolment Review

The 2017 Review of automatic enrolment (AE) proposed a raft of changes to build on the success to date of AE by the mid-2020s. Our survey explored a number of the proposals as well as a few reforms that failed to be included as recommendations, certainly in the nearer term.

We found:

- **85% of employers felt a decision to extend AE to those aged 18 would be welcomed. There were stronger views than a year ago in favour of other reforms, with 82% saying contributions should be from the first £ of earnings and 64% saying they are content with increases in minimum contributions. However, 60% favoured retaining the earnings trigger at £10,000pa income** (see *Figure 8*, below)**.**

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



(Source: ACA 2019 Pension trends survey, Table 13, page 25)

An appetite for higher minimum contributions?

We also tested what employers were prepared for if the Government accepted the argument that present minimum AE contributions are insufficient to provide for adequate 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 a minimum total AE contribution of 10% with a minimum employee contribution of 5% of total earnings, subject to a cap**[17] (see *Figure 9*, page 16)**.**

- **As might be expected, whilst smaller firms are reluctant to see any further increases in AE minimum contributions, larger employers were prepared for total minimum contributions to increase to at least 12% of earnings, with the largest employers looking for the earnings cap to be removed.**

[17] April 2019/20 minimum AE contributions are 8% of earnings between £6,136 and £50,000 earnings (2019/20 band) with a minimum of 3% from employers. 2020/21 figure not yet announced.

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.

Median	All employers	1-49 employees	50-249 employees	250-499 employees	500-999 employees	1000-4999 employees	5000 employees +
Minimum employee AE contribution	**5%**	4%	5%	5%	5%	6%	8%
Minimum total AE contribution	**10%**	8%	8%	10%	10%	12%	+12%
Qualifying Earnings	**Total Earnings with cap**	Present band	Present band	Total Earnings with cap	Total Earnings with cap	Total Earnings with cap	Total Earnings with no cap

(Source: ACA 2019 Pension trends survey, Table 14, page 25)

Many employers remain to be convinced about CDC schemes

The government has strongly endorsed the establishment of a new pension scheme option for employers and is introducing a regime via the current *Pension Schemes Bill* whereby Royal Mail and then other employers can introduce Collective Defined Contribution (CDC) schemes. It is argued by some that these schemes could offer the opportunity to boost members' retirement incomes by pooling assets and hence delivering better investment returns, while cutting red tape for employers – who would not be required to guarantee the level of pension benefits, as presently occurs with DB arrangements.

Our survey found that:

- **48% of employers support the CDC option being introduced, although only 8% of those sampled said they were presently inclined to consider introducing a scheme.**
- **Whilst 29% thought CDC schemes would probably offer a better pension outcome for members, 66% felt there were communication challenges in explaining the risks of such schemes to members.**
- **48% of employers felt there needed to be an ability to set up CDC Master Trusts for smaller employers** (see *Table 15,* page 25)**.**

Section 5 – Pensions tax, Savings schemes, Pension dashboards and Social care

Pensions taxation

The survey findings in respect of pensions taxation and the need for reform were published first in our **Interim Report No.3** in early November 2019[18]. In summary, the findings were as follows:

- **44% (up from 30% last year) of responding employers said the impact of current restrictions in relief have caused senior/higher income employees to leave their firms' pension schemes, disconnecting more and more senior decision-makers from personal interest in this key element of the employee package.**
- **21% report that skilled staff are retiring earlier or working fewer hours**, **supporting the evidence seen from the NHS schemes that the pension tax regime is distorting behaviour** (for more details, see *Table 16,* page 25)**.**
- **75% said the current tax structure was too complicated and needs simplification** (for more details, see *Table 17,* page 26)**.**
- **67% say reform should target more help on lower income groups, even if some other people are worse off as a result.**
- **69% said the Tapered Annual Allowance should be abolished, even if this requires a reduction in the general annual allowance.**

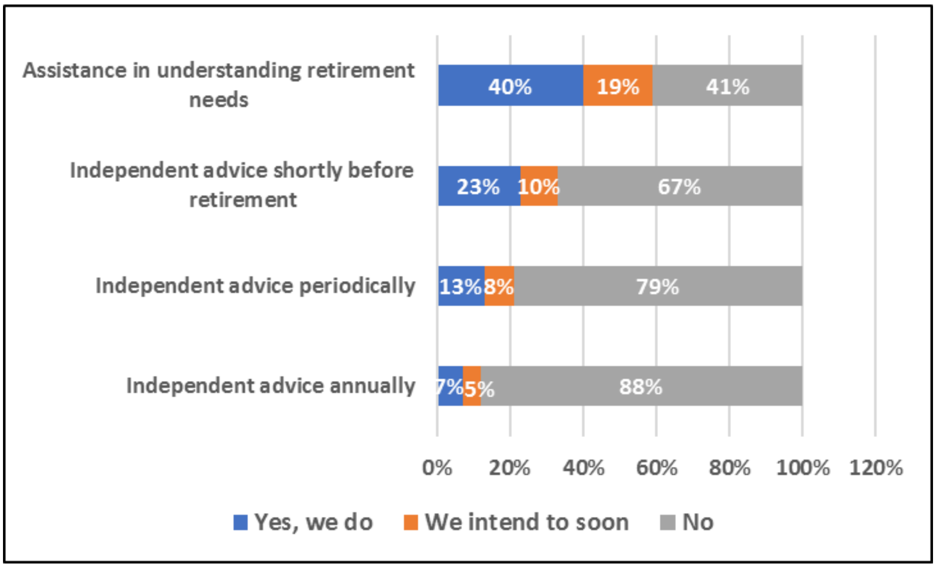
Workplace savings schemes and flexible savings options

Our survey explored the degree to which employers are offering workplace savings arrangements beyond pension schemes and employers' views on whether the competing needs for younger employees, such as savings for pensions, house deposits, student debt repayments and 'rainy day' savings, might warrant new savings options. The survey found:

- **9% of employers presently offer a corporate ISA or other form of workplace savings in addition to a pension scheme, but 13% felt this was a likely option they might consider in the next 2 years** (see *Table 18,* page 26)**.**
- **53% said aggregate employee savings would increase if there was greater flexibility in workplace savings options, with 28% saying they would consider paying an employer contribution into a more flexible savings vehicle that could be used for retirement savings and other purposes, such as house purchase, with due safeguards** (see *Table 19*, page 26).
- **7% of employers presently offer access to independent advice annually to employees wanting help with understanding their post-retirement spending needs, with others offering some periodic access to independent advice or more general 'assistance'** (see *Figure 10,* page 18)

[18] **Interim Report No. 3**: 'Pensions Tax needs simplifying with two-thirds wanting more help for lower earners…Future Chancellor should seek new path', published by ACA, 4 November 2019.

Figure 10: Employers offering or intending to offer employees assistance in understanding their post-retirement spending needs and/or access to independent advice on their pension savings



(Source: ACA 2019 Pension trends survey, Table 20, page 26)

Pension dashboards

The Government has made it clear that it is strongly supportive of pensions dashboards paving the way for their development and legislative requirements via the *Pension Schemes Bill*, but with the initiative being largely industry-led.

Our survey found:

- **76% of employers say schemes should be required by legislation to provide data to the pension dashboards, up from 61% a year ago.**
- **However, 56% are opposed to dashboards being launched initially covering only some types of schemes (e.g. DC not DB) and even more – 70% - are opposed to dashboards being launched excluding State pension benefits** (for more details, see *Table 21,* page 27)**.**

Social care

In the near-term the Government is boosting taxpayer spending on meeting social care costs, but few believe this will be a sufficient response to mounting costs as the proportion of the elderly needing help in later years grows.

At the time of writing, an initiative to try and identify a cross-party consensus on social care reform and/or a White paper is expected from the Government on this issue.

Key survey findings were:

- **Over 60% of employers agree with higher social care costs being supported by higher levels of tax or NI and by employees working past State Pension Age paying employee NICs, but many who support these tax measures do not 'strongly agree' with them.**
- **47% support a new compulsory insurance scheme for those below a certain age to help meet future social care costs, up from 19% last year** (see *Figure 11*, page 19)**.**

We have also published a *Placard*[19] 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[20] Health & Care Working Party.

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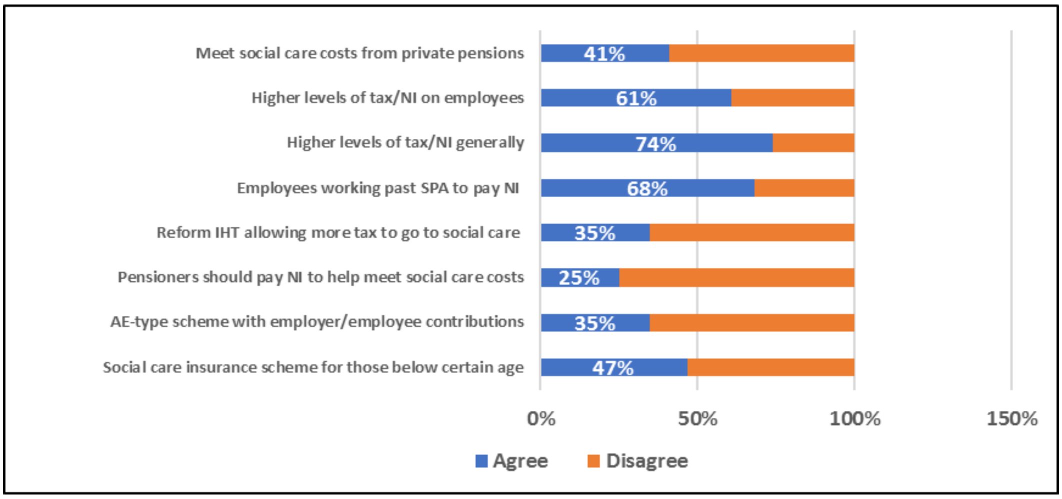
[19] ***Placard***, Issue 37, see www.aca.org.uk, publication dated 25 September 2018.
[20] Institute and Faculty of Actuaries.

Figure 11: Employers' views on the following longer-term approaches to meeting social care costs



(Source: ACA 2019 Pension trends survey, Table 22, page 27)

Section 6 – Defined Benefit Scheme reforms and GMP equalisation

Our initial survey findings reported late last year in respect of defined benefit scheme trends, the proposed equalisation of GMPs and early reactions to the proposed new DB Funding Code being introduced via the *Pension Schemes Bill* can be found in our published **Interim Report No. 1**[21] and **Interim Report No. 2**[22].

Summarising the key findings in respect of the present impact of defined benefit schemes on employers and *Pension Schemes Bill* measures:

- **Management time spent on DB pensions and inter-generational fairness between cohorts of current employees were the two top cost issues associated with ongoing DB provision** (for more details see *Table 23,* page 28).
- **78% of employers support a new Funding Code for defined benefit schemes that provides a more straightforward fast-track route to demonstrate compliance, with schemes also able to choose a more bespoke approach** (see *Table 24,* page 28)**.**
- **Over 70% support the Code including how a suitable long-term objective (LTO) is developed by trustees; clearer guidance to stronger employers on funding deficits in a shorter period; how closed schemes should reduce reliance on covenant and how trustees could demonstrate whether risk in their investment strategy can be supported** (see *Table 25*, page 28).
- **Perhaps reflecting the omission of the measure from the 'first' *Pension Schemes Bill*, just 30% currently support initiatives to transfer DB scheme liabilities to a consolidator at less than full buy-out by way of a premium, but with 55% saying consolidation was more likely if legal changes are made to allow benefits to be simplified on the way into a consolidation vehicle – another action left out of the Bill** (see *Table 26,* page 29)**.**
- **71% of employers also believe that the law should be changed so DB schemes can reduce pension increases if continuing to provide increases at the level in scheme rules will severely and adversely affect the sustainability of an employer** (for more details, see *Table 27*, page 29).

On GMP equalisation, the survey findings can be summarised as follows:

- **64% of employers running defined benefit schemes say it will take more than 2 years to fully equalise pensions for the effect of unequal GMPs in their schemes** (for more details, see *Table 28,* page 29)**. Administrative complexity and time commitments topped the 'biggest challenges' in dealing with GMP equalisation** (see *Figure 12*, below).

Figure 12: Employers' ranking of biggest challenges in dealing with GMP equalisation

	Rank
Administrative complexity and time	1
Cost of exercise	2
Increase in liabilities	3
Tax or other uncertainties	4
Communication with members	5
Missing/poor data	6

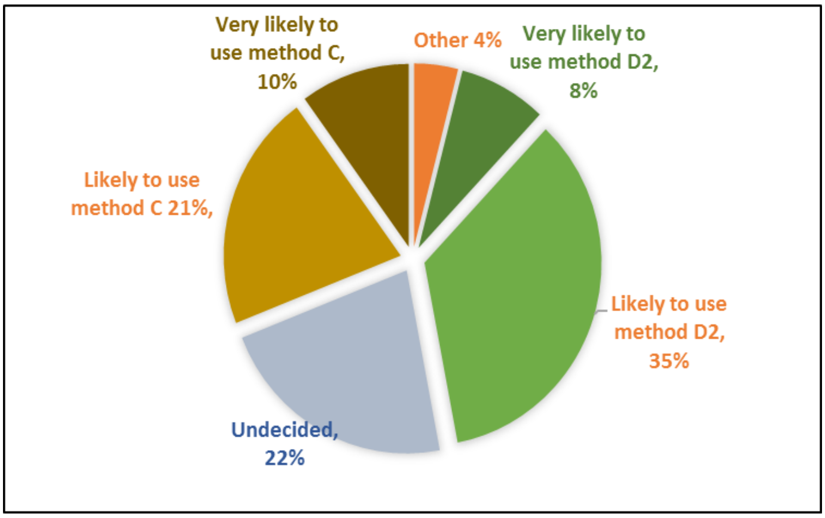
(Source: ACA 2019 Pension trends survey, Table 29, page 29)

[21] **Interim Report No.1: '**Missed Opportunity' to boost pension contributions In Pensions Bill…but support for key measures', published by ACA, 16 October 2019.

[22] **Interim report No.2**: 'Widespread indecision and worries over complexity and cost of GMP Equalisation', published by ACA, 22 October 2019.

- ➢ **43%** **of these employers say they are 'likely to opt for GMP conversion' (method D2) with 31% leaning towards the year on year calculations and dual records (method C), with the remainder undecided** (see *Figure 13*, below).

Figure 13: Employers' likelihood of using 'method C' (year on year calculations and dual records) or 'method D2' (GMP conversion) when equalising pensions



(Source: ACA 2019 Pension trends survey, Table 30, page 29)

Pension transfer activity slows

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. Transfer requests continue to place an enormous pressure on scheme administration. As we have reported over the last two years, 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:

- ➢ **Whilst 22% of employers reported transfer requests increasing in number, 30% said they were decreasing** (see *Table 31,* page 30)**.**
- ➢ **17% of employers (down from 41%) say the incidence of transfer requests from defined benefit schemes exceeds 5% of scheme members, but with just 9% reporting completed transfer settlements exceeding 5% of scheme members** (see *Table 32,* page 30).
- ➢ **43% of employers said it was their perception that employees were experiencing difficulty in finding IFAs prepared to advise on pension transfers from DB schemes (up from 28% a year ago)** (see Table 33, page 30)**.**

These concerns about both the availability are compounded by the appropriateness of the regulated advice available to DB scheme members. Other research[23] suggests that only around half of those who have taken 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.

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

Statistical Appendix: ACA 2019 Pension trends survey results

The survey was conducted by the Association of Consulting Actuaries (ACA) in the summer of 2019 for online completion and was circulated to UK employers of all sizes, selected on a random basis. Responses were received from 308 employers with over 510 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)

1-49 employees	50-249 employees	250-499 employees	500-999 employees	1000-4999 employees	5000 employees +
10%	32%	11%	15%	24%	8%

Table 2
Percentage of employers who engage workers as part of the 'gig economy' (for whom pension provision is not made)

No 'gig economy workers'	Up to 5% 'gig economy' workers	6 – 20%	21 – 50%
48%	31%	19%	2%

Table 3
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	46%	83%	7%	5%	5%
Firm's trust-based DC scheme	21%	66%	6%	5%	23%
DC Master Trust scheme	39%	98%	2%	-	-
Other Multi-employer scheme	12%	14%	14%	47%	25%
Firm's defined benefit scheme	41%	21%	5%	33%	41%
Firm's mixed DB/DC scheme	2%	-	40%	20%	40%

Changes in retirement ages

Table 4
Percentage of employers reporting on number of current employees over age 65.

No employees over age 65	Up to 5% over age 65	6 – 10% over age 65	11 – 15% over age 65	Over 15%
18%	72%	8%	2%	-

Table 5
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 2018 results.

	Current	By 2020	By 2028
Under 60	1% (1%)	- (<1%)	- (-)
Age 60	8% (10%)	6% (8%)	<1% (1%)
Age 61-64	23% (20%)	9% (12%)	5% (6%)
Age 65	54% (46%)	20% (15%)	12% (11%)
Age 66-67	11% (18%)	62% (51%)	58% (54%)
Age 68-69	3% (5%)	3% (11%)	20% (19%)
Age 70	- (<1%)	- (2%)	4% (8%)
Age 71-75	(-)	- (-)	<1% (1%)

Pension contributions and auto-enrolment

Table 6
Median contribution rates into pension arrangements provided by responding employers (by types of scheme). (Figures in brackets are 2018 figures from the *ACA 2018 Pension trends survey* report)

	Employer		Employee
Contract based DC	5% (6%)		5% (3%)
Trust based DC	7% (6%)		4% (4%)
DC Master Trust	4% (1-2%)		4% (2%)
Other multi-employer schemes	5% (3%)		4% (2%)
Mixed DB/DC	11-15% (16-20%)		5% (6%)
Defined benefit	16-20% (21-25%)		6% (6%)

Table 7
Pension changes made by employers in the last year

	Percentage
Changed pension offering to employees	22%
Closed an 'old' trust-based DC scheme	4%
Closed an 'old' trust-based DB scheme to future accrual	5%
Introduced a new Master Trust scheme	7%
Switched AE scheme provider	4%

Table 8
Employers reporting employees showing greater interest or concern in the following areas over the last year

	Many employees	A few employees
Investments in socially responsible and environmental areas	-	6%
Level of charges	-	3%
Scheme governance issues	-	3%
Investment returns on their pension	4%	9%
Security of their pension	3%	17%
More choice in pension investment decisions	-	6%
People requesting more pension communications	4%	9%
Raised intergenerational fairness issue	-	2%
Behavioural change due to media coverage of pensions and savings	-	3%

Table 9

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

Opt-out rate	1-49 employees	50-249 employees	250-499 employees	500-999 employees	1000-4999 employees	5000 employees +
Actual on staging	16 – 20%	11 – 15%	6 – 10%	6 – 10%	6 – 10%	1 – 5%
All median	← 6 – 10% →					

Cessation rate	1-49 employees	50-249 employees	250-499 employees	500-999 employees	1000-4999 employees	5000 employees +
Current cessation rate	21 – 25%	11 – 15%	6 – 10%	1 – 5%	1 – 5%	0
All median	← 6 – 10% →					

Table 10

Changes in AE cessation rate following April 2018 increase in minimum contributions

Change in AE cessation rate from April 2018	All employers	1-49 employees	50-249 employees	250-499 employees	500-999 employees	1000-4999 employees	5000 employees +
Substantial increase	**6%**	17%	4%	6%	5%	4%	4%
Modest increase	**11%**	23%	9%	13%	14%	7%	13%
No change	**80%**	60%	87%	81%	76%	82%	78%
Greater AE take-up	**3%**	-	-	-	5%	7%	5%

Changes in AE cessation rate following April 2019 increase in minimum contributions

Change in AE cessation rate from April 2019	All employers	1-49 employees	50-249 employees	250-499 employees	500-999 employees	1000-4999 employees	5000 employees +
Substantial increase	**9%**	27%	7%	10%	7%	6%	4%
Modest increase	**10%**	30%	7%	10%	10%	6%	8%
No change	**78%**	40%	85%	77%	81%	82%	84%
Greater AE take-up	**3%**	3%	1%	3%	2%	6%	4%

Table 11

Employees not eligible for AE (for example, because their earnings are generally too low or because of age). Median figures.

Employees not eligible for AE	All employers	1-49 employees	50-249 employees	250-499 employees	500-999 employees	1000-4999 employees	5000 employees +
Median	**11-15%**	31-35%	16-20%	11-15%	5-10%	<5%	<5%

Table 12

Are an increasing percentage of employers wanting to 'opt-in' to employers' schemes?

	All employers	1-49 employees	50-249 employees	250-499 employees	500-999 employees	1000-4999 employees	5000 employees +
Yes, sizeable	**1%**	-	-	-	3%	1%	-
Yes, modest	**5%**	4%	3%	7%	6%	6%	4%
No	**94%**	96%	97%	93%	91%	93%	96%

Table 13

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

	Strongly Agree	Agree		Disagree	Strongly Disagree
Extend AE to those aged 18 or over	40%	45%		13%	2%
Keep earnings trigger at £10,000pa income	6%	54%		31%	9%
Contributions from first £ of earnings	18%	64%		15%	3%
No increase in minimum contributions	11%	25%		48%	16%

Table 14

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.

Median	All employers	1-49 employees	50-249 employees	250-499 employees	500-999 employees	1000-4999 employees	5000 employees +
Minimum employee AE contribution	**5%**	4%	5%	5%	5%	6%	8%
Minimum total AE contribution	**10%**	8%	8%	10%	10%	12%	+12%
Qualifying Earnings	**Total Earnings with cap**	Present band	Present band	Total Earnings with cap	Total Earnings with cap	Total Earnings with cap	Total Earnings with no cap

Table 15

Employers' views on the Government's intentions to initially introduce a Collective DC scheme (CDC) for Royal Mail and subsequently to extend this option more widely to employees.

	Strongly agree	Agree		Not sure	Disagree / Not likely
Support new option for employers	10%	38%		39%	13%
Needs CDC Master Trust for smaller employers	3%	45%		42%	10%
Will probably offer a better pensions outcome for members	5%	24%		66%	5%
Will present communications challenge to explain risks to members	28%	38%		27%	7%
Employers that would consider introducing a CDC scheme themselves	3%	5%		45%	47%

Pension tax and corporate savings schemes

Table 16

Impact of restrictions in pension tax relief over recent years on businesses. Figures in brackets are 2018 results.

	Yes
No impact	38% (46%)
Caused senior / higher income employees to leave firms' schemes	44% (30%)
Caused skilled staff to retire earlier than they otherwise would or to work fewer hours	21% (NA)
Led to pressures to revise pay and benefits package	23% (37%)
Caused business to reconsider its pension arrangements	21% (32%)
Been influential in decision to close pension arrangements	5% (11%)
Increase in employees requesting reduced benefits to pay tax charges ('scheme pays')	21% (18%)

(More than one answer possible)

Table 17

There is evidence that, for higher earners, restrictions in tax relief is leading to changes in working patterns that may be bad for society with management also increasingly self-excluded from pension provision. What are employers' views on how to resolve this?

	Strongly Agree	Agree		Disagree	Strongly Disagree
Current structure too complicated/needs simplification even if some people are worse off	36%	39%		21%	4%
Reform should target more help for lower income groups by reducing relief for higher income groups	18%	49%		25%	8%
The Lifetime Allowance should be abolished by general lowering of annual allowance	15%	31%		39%	15%
Tapered Annual Allowance should be abolished even if this requires reduction in annual allowance	27%	42%		26%	5%
The Allowances should be simplified and funded by Employee NI on pension payment taxed at 40% or more	5%	37%		37%	21%

Table 18

Percentage of employers offering a corporate ISA or any other form of workplace savings scheme in addition to a pension scheme and the possibility of so doing in the next 2 years

At present		In next two years		
		Yes	Possibly	Definitely Not
9%		13%	22%	65%

Table 19

Given competing savings needs for younger employees (such as savings for pensions, house deposits, student debt repayments and 'rainy day' savings) what are employers' views on the following?

	Yes
Current workplace savings options offer sufficient flexibility	45%
Aggregate employee savings would increase if there was greater flexibility	53%
If there was a more flexible savings vehicle that could be used for retirement savings and other purposes (e.g. house purchase) that received employer contributions might your business provide such a vehicle?	28%
A one-off single limited withdrawal at any age from a pension scheme should be considered in respect of employee contributions in excess of AE and below the trivial contribution level (of £30,000)	22%

Table 20

Employers offering or intending to offer employees assistance in understanding their post-retirement spending needs and/or access to independent advice on their pension savings

	Yes, we do	Yes, we intend to soon	No, we don't
Assistance in understanding their retirement spending needs	40%	19%	41%
Independent advice shortly before retirement	23%	10%	67%
Independent advice periodically but not annually	13%	8%	79%
Independent advice annually	7%	5%	88%

Pensions Dashboard and Social Care reforms

Table 21

The Government and a number of organisations are supporting the idea of a pension dashboards. What are employers' views/actions on the following:

	Yes		No
Do members generally have access to inter-active websites giving them information about current savings/projected pension outcomes	78% (64%)		22% (34%)
Should all schemes be required by legislation to provide data to the pensions dashboard(s)?	76% (61%)		24% (28%)
Taken action to clean up pensions data in preparation for pension dashboard(s)	45%		55%
Should dashboard(s) be launched initially covering only some types of private schemes (e.g. DC not DB)?	44%		56%
Should dashboard(s) be launched initially without also including State pension benefits?	30%		70%
Employers believing employees will access a pensions dashboard at least once a year on average	58%		42%

Table 22

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

	Strongly Agree	Agree		Disagree	Strongly Disagree
Tax changes should be made that encourage social care costs being met from private pensions	5% (4%)	36% (37%)		49% (31%)	10% (9%)
Costs should be met by higher levels of tax or NI on employees	15% (15%)	46% (32%)		33% (9%)	6% (11%)
Costs should be met by higher levels of tax or NI generally	18% (14%)	56% (52%)		21% (7%)	5% (13%)
Employees working past SPA should pay NI to help meet costs	11% (11%)	57% (34%)		11% (18%)	21% (20%)
Inheritance tax should be reformed allowing more tax to go towards social care	15% (16%)	20% (21%)		48% (34%)	17% (12%)
Pensioners should pay NI to help meet social care costs	5%	20%		35%	40%
Introduce an AE-type social care scheme with minimum employer and employee contributions plus an opt-out option	3%	32%		45%	20%
Social care costs in old age should be met by a compulsory social care insurance scheme for those below a certain age	8% (7%)	39% (12%)		34% (14%)	19% (15%)

(More than one answer possible)

Defined benefit pension schemes

Table 23
What impact have the costs associated with defined benefit schemes had on the following?

	Major impact	More impact in last year	Some impact	No impact
Pay increases	4% (1%)	13%	39%	44% (11%)
Pension contributions into other schemes	13% (6%)	12%	30%	45% (20%)
Inter-generational fairness between cohorts of current employees	17% (4%)	13%	26%	44% (16%)
Inter-generational fairness between current employees and retired/deferred members	12% (4%)	11%	24%	53% (14%)
Business performance	11% (11%)	2%	48%	39% (14%)
Business investment	8% (18%)	4%	30%	58% (23%)
Shareholder returns (e.g. dividends)	6% (10%)	5%	44%	45% (64%)
Management time spent on pensions	30% (38%)	17%	51%	2% (<1%)

Table 24
Employers' views on the new Funding Code and its likely intention of providing a more straightforward fast-track route to demonstrating compliance with requirements with scope for schemes to choose a more bespoke approach subject to further evidence being provided and greater regulatory scrutiny.

Strongly support	Support	Disagree	Strongly disagree
5%	73%	14%	8%

Table 25
Employers' views on other changes that the new Funding Code may introduce.

	Strongly agree	Agree	Disagree	Strongly disagree
Trustees will be required to articulate their approach to funding and investment in a Statement	18%	71%	10%	1%
TPR will outline in Code how a suitable long-term objective (LTO) should be developed by trustees	23%	61%	10%	6%
For closed schemes, TPR will say how they expect trustees to reduce progressively reliance on covenant	18%	43%	20%	19%
TPR likely to give clearer guidance to stronger employers on funding deficits in a shorter period	17%	56%	22%	5%
TPR will outline how trustees could demonstrate whether risk is supported in their investment strategy	22%	62%	11%	5%

Table 26
Employers' views on consolidating existing DB arrangements into 'consolidation vehicles/superfunds'.

	Strongly Agree	Agree	Undecided	Disagree	Strongly Disagree
Is consolidation generally a good thing?	13% (6%)	26% (34%)	41% (18%)	17% (29%)	3% (13%)
Support for initiatives to offload DB scheme liabilities to a consolidator at less than full buy-out by way of a premium	4% (16%)	26% (17%)	26% (22%)	35% (30%)	9% (15%)
Is there reputational risk for employers offloading liabilities to vehicles with lower capital requirements than insurers	9% (11%)	65% (41%)	20% (37%)	4% (6%)	2% (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	5% (8%)	50% (51%)	33% (39%)	9% (1%)	3% (1%)

Table 27
Although not likely in the forthcoming Pensions Bill, 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 sustainability of the employer? Figures in brackets are 2018 results.

	Yes
Yes, all schemes should have option to move from RPI to CPI	16%
Yes, so long as the trustees and employer agree	34%
Yes, so long as members are also given chance to opt to go into the PPF instead	2%
Yes, but only if the alternative is likely to be the employer's insolvency + scheme in PPF	19%
No, employers should stand by current scheme rules	29%

Table 28
How long do employers think it will take to fully equalise pensions for the effect of unequal GMPs in their schemes?

Less than 1 year	1 – 2 years	2 – 3 years	More than 3 years
9%	27%	45%	19%

Table 29
Employers' ranking of biggest challenges in dealing with GMP equalisation

	Rank
Administrative complexity and time	1
Cost of exercise	2
Increase in liabilities	3
Tax or other uncertainties	4
Communication with members	5
Missing/poor data	6

Table 30
Employers' likelihood of using 'method C' (year on year calculations and dual records) or 'method D2' (GMP conversion) when equalising pensions

	Percentage of Employers
Very likely to use method C	10%
Likely to use method C	21%
Undecided	22%
Likely to use method D2	35%
Very likely to use method D2	8%
Other	4%

Table 31

Employers reporting on whether the approximate number of transfer requests from DB schemes has changed compared to a year ago.

Increased	Remained same	Decreased
22%	48%	30%

Table 32

Employers reporting incidence of transfer requests by members from defined benefit schemes over the last year and the number completed. Figures in brackets are 2018 results.

	Fewer than 5% of members	5-10% of members	Over 10% of members
Incidence of transfer requests	83% (59%)	10% (27%)	7% (14%)
Completed transfers	91% (82%)	6% (16%)	3% (2%)

Table 33

Employers' perception of the difficulty members are experiencing in finding advisers prepared to advise on pension transfers from defined benefit schemes, Figures in brackets are 2018 results.

	Yes	No	Don't know
Had difficulty	43% (28%)	9% (34%)	48% (38%)

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