Final Report of the ACA 2020 Pension trends survey

ASSOCIATION OF CONSULTING ACTUARIES

Pensions: Build back better

- Survey results confirm those leaving automatic enrolment schemes have markedly increased since the onset of COVID-19, but employers still support increased minimum contributions and other pensions and savings reforms as the economy recovers
- Employers are supportive of key measures in the Pension Schemes Act, but calls grow for changes to the pension tax regime
- Schemes are hesitant in reacting to climate change investment risks and opportunities

Survey conducted by the Association of Consulting Actuaries | February 2021

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Chair's Introduction: Pensions – Build back better

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"The Government would do well to listen and factor business views on pensions into its 'build back better' strategy."

What strikes me most is the ability of British business to keep long-term needs in mind when dealing with a pandemic and withdrawal from the EU. The Government would do well to listen and factor business views on pensions into its 'build back better' strategy.

The messages from British business are clear.

The excessive complexity of pensions tax means employers are losing interest and tending to the lowest denominator of pension provision. Businesses and savers want flexibility with digital access through a single dashboard. It is time for a root and branch review, to get us saving for our futures. Failure to do so will lead to miserable retirements, with hefty costs falling on our younger generations.

Covid-19 has put pensions under pressure. The predictable increase in auto-enrolment opt-outs points to a much bigger concern. 10 million of our most vulnerable workers still aren't covered by auto-enrolment. This is shameful. Regardless of the costs, British business near universally supports widening auto-enrolment to cover more workers, starting from age of 18 and from the first £1 of earnings.

British business is also rightly worried that we're not saving enough and supports increasing auto-enrolment minimum contributions. Doing so would address inequities in today's pension landscape, which hit women, minority groups and the poorest hardest. Extending this to make pensions more flexible and better integrated with later-life social care would help everyone.

Scams are a major threat in 2021. People are tapping into savings for cash to get through COVID and many are worried about how secure their pension is. Good employers are combatting this with access to financial advice, but 4 in 10 say they can't get what they need. Regulators must urgently make it easier to give savers simple guidance, keeping them out of the hands of scammers and averting a crisis of saver confidence.

But it's not all doom and gloom. There's strong business support for the policies set to become law through the Pension Schemes Act in 2021. Pensions are becoming central to tackling climate risk, with savers demanding action and schemes beginning to grasp the nettle. DB schemes getting access to commercial consolidators and a funding regime focussed more towards the long-term are both strongly supported. And there's support for Collective Defined Contribution as a new way of saving beyond just Royal Mail.

Reading our survey results gave me a sense of optimism. British business has a clear collective view on the issues our society faces. It also has the appetite to use pensions to make society fairer and tackle climate risk. This calls for far-sighted policies, as part of any plan to 'build back better'.

I would like to thank all those who responded to our survey and sincerely hope that the Government heeds your collective voice.

Patrick Bloomfield
Chair
Association of Consulting Actuaries

At a glance survey results

This year's survey included responses from 281 employers of all sizes

'Top 10' findings

Pension contributions

68% *could support total minimum AE contributions of 10% of earnings from April 2022 (mainly employers with more than 250 employees).*

SEE PAGE 17

Auto-enrolment leavers and wider eligibility

11% *saw more employees leave their AE scheme(s) last year. This increased to **26%** following the COVID outbreak.*

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88% *support over 18s being eligible for AE and **84%** support AE applying from the first £1 of earnings.*

SEE PAGE 16

TPR's DB Funding Code Consultation

72% *support the Fast Track and Bespoke compliance proposals, but over a quarter oppose TPR's overall direction of travel.*

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Pensions dashboards

82% *oppose multiple dashboards and dashboards that do not include State Pensions.*

SEE PAGE 20

Collective Defined Contribution schemes (CDC)

52% *support CDC being made available to employers other than Royal Mail, with **12%** of employers considering using such a scheme. Almost half support a CDC Master Trust option.*

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Climate risk

52% *of schemes report greater interest from members in investments in socially responsible, environmental and climate areas.*

SEE PAGE 21

Pension taxation

79% *of employers say the complex pensions tax regime is negatively impacting their business; and **89%** say it needs simplifying even if that means some people are worse off.*

SEE PAGE 24

GMP equalisation

43% *of respondents are likely to simplify their schemes by converting GMP at the same time, with this rising to **60%** if tax and legislation issues were resolved by HMT, HMRC and DWP .*

SEE PAGE 25

Flexible savings options

62% *think more flexibility would increase employee saving (up from 53% last year).*

SEE PAGE 26

Summary of other findings

Retirement ages – see page 12

- **93%** of employees currently retire at age 66 or younger – a percentage that employers say is set to be reduced to **55%** by 2028 (when SPA increases to age 67). However, expectations of increases in typical retirement ages have reduced on a year ago.

Contribution rates – see page 13

- Total DC contributions remained at **9–11%** of earnings.
- Median DB contributions increased to **28-32%** of earnings (excluding deficit contributions).

AE eligibility and opt outs – see pages 11 and 15

- **11-15%** of employees are ineligible for AE as well as most 'gig economy workers'. Gig economy workers were engaged by **59%** of employers responding to the survey and for a third of survey respondents these workers make up in excess of 5% of their workforce.

Social care – see page 17

- Over **two-thirds** of employers say higher social care costs should be supported by higher levels of tax or NI on employees; or by employees working past State Pension Age paying employee NICs, or by increasing inheritance tax.
- **60%** support tax changes to encourage social care to be met from private pensions, up from **41%** a year ago.
- **42%** support a new compulsory insurance scheme for those below a certain age to help meet future social care costs.

Collective Defined Contribution (CDC) – see page 20

- **58%** think CDC will be hard to communicate to employees.

Pensions dashboard – see page 20

- **Less than half** have cleaned their data in readiness for a pensions dashboard.

Climate risk – see page 21

- **36%** of DB schemes say they have not considered climate change risk at all in the context of their sponsor's covenant.
- In selecting investment managers, **45%** of schemes take climate risk into account along with other investment criteria in appointing investment managers.
- **23%** take no account of climate risk in their manager selection decisions.
- Just **12%** of DC schemes say they have a default fund that presently takes account of climate risk with a further **16%** reviewing their approach.

DB Consolidation – see page 22

- **65%** say consolidation is a 'good thing' compared to just **39%** a year ago.
- **A majority** say it would be more likely if benefits could be simplified too.

Pension transfers – see page 22

- Whilst **32%** of employers reported transfer requests increasing in number, **35%** said they were decreasing.
- **6%** of employers (down from 17% last year) say the incidence of transfer requests from defined benefit schemes exceeds 5% of scheme members, but with just **3%** reporting completed transfer settlements exceeding 5% of scheme members.

Independent advice – see page 22

- **45%** provide access to independent financial advice to employees close to retirement.
- **39%** say members are experiencing difficulty in finding advice on DB transfers.

Pension taxation – see page 24

- Whilst respondents remain split over how to reform the regime, more than three-quarters say the 2020 Budget changes have not mitigated the problems they are facing and **78%** support more help for those on lower incomes even if this means less relief elsewhere.
- At a time when Government is supposed to be supporting businesses, the negative impact of the current regime on UK businesses includes skilled staff retiring prematurely (reported by **27%** of employers) and pressure to change pay and benefits packages (by **36%**).
- Whilst a majority oppose pension tax relief being reduced to help cut public spending post-COVID-19, **40%** are prepared to see this happen on future savings (but not past savings).

GMP equalisation – see page 24

- The **vast majority** of schemes expect to complete GMP equalisation in the next 3 years, but **34%** are still at the initial planning stage and **6%** have taken no actions at all so far.
- Compared to a year ago, poor data has moved up the ranking table as one of the biggest challenges in dealing with GMP equalisation – but still behind the administrative complexity and costs involved.

Wider savings opportunities – see page 26

- **47%** say 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.

Section 1

2021 ACA policy recommendations for the Government

The past year has been challenging, with the global pandemic forcing significant government action to combat the health and wider economic impacts of COVID-19. Whilst short term focus has understandably been on managing the pandemic and bolstering economic resilience through policies such as the furlough scheme, we believe the challenge of "building back better" will make medium and long-term planning an increasing priority.

For pensions and savings, this will bring into greater focus issues of Savings Adequacy. People of working age are not saving enough for a comfortable retirement, with our 2020 survey showing combined employer and employee contributions to DC schemes remaining stubbornly low at around 10% of earnings. The impact of the pandemic is likely to have further increased the stresses on the most vulnerable in these groups.

Other long-term savings issues, such as the funding of social care, remain confused and poorly understood. Two thirds of employers agree social care costs should be supported to a greater extent through the tax system, and reform is long overdue.

However, these challenges do not exist in a vacuum and any significant new costs need to be met fairly. We believe that as the Government builds its medium-term policy response to the pandemic, it is essential that proposals form part of a wider intergenerational strategy covering all aspects of tax and savings, including pensions and social care, and that will help to protect the needs of society for generations to come.

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Within this, we believe key priorities should be to:

- incentivise adequate build-up of pension savings, which is now even more challenging at a time when many savers are understandably more focussed on short-term needs. We believe this should involve an expansion of Automatic Enrolment coverage and sensible reform to pensions taxation including steps to increase flexibility in the way tax-privileged savings can be used;
- reforming the social care system to make sure it is there when people need it, its costs are understood, and individuals are incentivised to make their own provisions; and
- making sure the financial and taxation reforms we pursue as a nation also sit comfortably alongside wider social reforms to enhance equity, diversity and inclusion and, importantly, changes needed to tackle our society's climate risk aspirations.

Our key policy recommendations to meet this challenge are:

1. **A refresh of auto-enrolment (AE), including widening coverage and increasing minimum AE contribution rates during this Parliament:**

   The present 8% of qualifying earnings (which equates to closer to 4% of total earnings for those on lower incomes) is inadequate to provide for a sufficient income in later life. Our survey found that overall median contributions to DC Schemes are around 10%, but this is still significantly lower than the c30% median contribution to DB schemes, which is likely indicative of the "real cost" of providing for a comfortable retirement.

   To begin to bridge these gaps, we suggest minimum AE contributions should increase to 12% of total earnings by the end of the current Parliament with costs shared between employers and employees. The earnings threshold (which currently stops millions being signed up for AE) should be reduced or removed and AE should 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. We suggest an annual "opt-down" option is included for individuals to halve contributions (to 6% overall by the end of the Parliament) to reflect economic hardships brought about by the pandemic.

2. **There is an urgent need now for increased flexibility in the way people save for retirement, for example by extending pension freedoms to younger savers (subject to appropriate safeguards and incentives) to promote both resilience and intergenerational fairness**

   To provide greater incentives for higher levels of pension savings by younger employees, and support the wider AE measures we have suggested, the Government should relax current rules and implement an extension of pension freedoms allowing early access of up to a maximum of £30,000 (or 50%, if lower) of individuals' pension funds that are currently available only from age 55 (age 57 from 2028). This amount is consistent with the "trivial commutation" limit often applied to the return of "small" pension funds to older savers. These funds could be used to meet a short and specific list of eventualities, such as following job loss in future pandemic scenarios, or potentially to help fund house deposits.

All footnotes in this Report are featured on page 27.

Our survey found that 60% of employers agreed that more flexibility would result in a net increase in individual savings. Without such reform, we believe there is a very real danger that younger savers feel that pension savings crowd out other savings needs, causing chronic under-saving and also causing the financial gulf between generations to grow to unacceptable levels.

3. Action is needed on the overdue intergenerational commitment to a better social care regime

Social care costs are expensive and often poorly understood with many people only encountering the social care system for the first time when elderly relatives require help. Relatively few people make personal provisions for future social care costs (outside of regular pension saving) and funding outcomes are often perceived as unexpected and unfair especially when significant personal contributions are required, or paid voluntarily to secure a higher level of care. In 2018/19 local authorities spent £22 billion on adult social care, with a further £10 billion of self-funded care costs met by individuals.

Improving this balance will be complex, with 68% of survey respondents supporting higher taxes to fund social care, but 60% also supporting tax changes to encourage greater self-funding through private pension provision and 42% supporting compulsory insurance.

The pandemic has highlighted the steps society is willing to take to look after its senior citizens and the importance of adequate social care. The Government needs to 'be brave' and make proposals this year on what it feels the appropriate burden of cost for providing social care, split between the taxpayer and the individual, should be. It needs to propose what constitutes a "baseline level" of social care and how this will be reviewed as the years go by. If the taxpayer is to contribute more (which seems inevitable), then it needs to spell out the impact on rates of tax and how this extra burden might be spread as fairly as possible across the generations.

We believe that a fair longer-term approach will require a range of practical and financial solutions to suit different age groups. This could include ideas such as consideration of tax reforms whereby pension income used to pay for care is tax-free, purchase of care insurance products is incentivised and/or a social insurance scheme is put in place 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. Whatever the proposed approach, it will be important to create clarity and certainty around future taxpayer support for long-term care costs, to enable individuals to plan for the latter stages of their retirement appropriately, and at an early stage. In turn this could facilitate the demand for and development of innovative financial products to support individual planning.

4. 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 Government needs to think carefully on how any further pension tax reforms should be progressed, given the considerable sums involved (HMRC's figures suggest (with caveats) pension tax and NIC relief net of tax received on pension income for 2017/18 totals over £38 billion) and the resulting personal financial implications for public and private sector employees (in both DB and DC schemes) of making any changes.

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 (or revenue raising), noting that only part of the published "cost of relief" relates to future accrual. However, our survey indicated significant appetite for reform, with 89% of respondents believing the current pensions tax system is too complicated and 78% that reform should target more help for lower income groups by reducing relied for higher income groups.

5. Balancing costs between current workers' and previous workers' pensions

The Pensions Regulator's new code of practice for funding Defined Benefit (DB) schemes must go ahead without undue delay – our survey reveals employers are supportive 'in principle'. It must deliver simplicity for small schemes and flexibility for large schemes with strong sponsors. Most importantly, it needs to balance costs of funding pensions with businesses recovering from COVID-19. If DB costs are too high, the first thing to suffer will be the amount employers can save for today's workers' pensions.

How the economic recovery from COVID-19 will take shape is far from certain. We encourage TPR to deliver a new DB funding code that has room to evolve as circumstances require. Actuaries acknowledge that DB scheme funding should gradually improve as scheme members retire. Meeting this cost too quickly will lead to systemic risks today. Meeting this cost too slowly will lead to systemic risks tomorrow. Maintaining balance has to be our collective goal.

6. Tackling climate risk, through the way savings are invested

Climate risk is an existential threat to us all. The modest reduction in pollution from the COVID-19 lock-down has shown the scale of what is needed to deliver the Paris Climate Accord.

Actuaries have a unique role to play, as professionals specialising in long-term risk, with oversight of trillions of pounds of long-term savings. We will be actively working to make climate risks transparent, enabling investors to save in the socially responsible ways they want to – our survey results show the appetite is there for action with over half of the DB schemes responding saying they have made or are actively considering asset allocation changes to minimise climate change risks or to enhance new opportunities. We will work with Government to encourage policies that align economic recovery with a green future.

Section 2

Survey respondents: background information

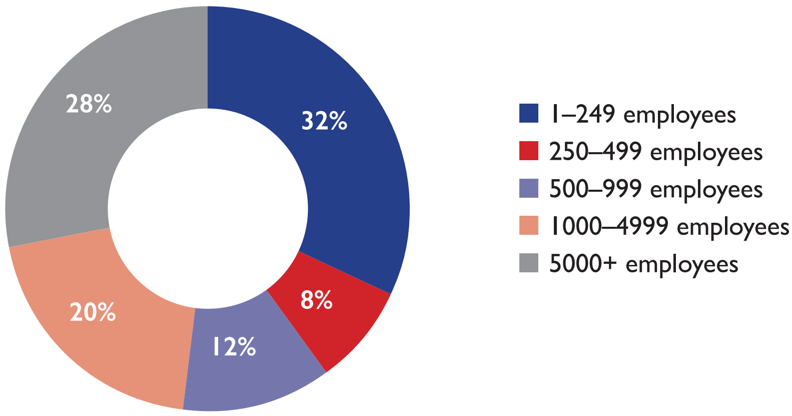
Two-thirds of the responses this year came from firms employing more than 250 employees, with close to a half replying from organisations with 1,000 employees or more *(see Figure 1, below)*. **The sample does not represent a 'mirror image' of UK employers broken down by size.** If it did, over 99% of the sample (rather than 32%) would be drawn from firms with fewer than 250 employees[1]. However, it provides a good indication of trends across all types of enterprises, as it has done since the survey's inception in 1997.

As we write this report, around 85% of 'eligible' employees are now in workplace pension schemes[2] (with 10.4 million employees enrolled through automatic enrolment (AE)), with over 1.75 million employers having met their AE declaration of compliance requirements[3].

But pause on the figures. These Government figures could be felt to be a little misleading in that those employees '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, most gig-economy workers 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 and 'gig economy' workers 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 *Pension Schemes Act* meaning current restrictions limiting wider pension coverage remain as is.

"Huge progress has been made in extending pension coverage – but still 14 million private sector workers remain outside the pensions tent"

Figure 1: Organisations responding to the survey by number of employees



(Source: ACA 2020 Pension trends survey, Table 1, page 28)

All footnotes in this Report are featured on page 27.

Of the employers responding to the survey at July 2020:

- **59% of employers in the sample engage workers as part of the 'gig economy' for whom pension provision is not required under AE legislation. A third of employers engage over 5% of the workers in this way** *(see Table 2, page 28)*.

Studies in 2019 suggest close to 5 million workers are now engaged in the 'gig economy' – double the number of 3 years earlier. It is difficult to assess what might have occurred to this grouping during 2020, but as many businesses struggle to recover during 2021 it seems unlikely that there will not be a renewed reliance on lower-cost, flexible 'gig economy' engagements.

The survey also found:

- **The principal types of open pension schemes run by the employers responding to the survey are defined contribution in structure with only 26% of employers now offering an open DB arrangement to new employees.**
- **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)*.

"In our sample, only one in four defined benefit schemes are open to new entrants. 41% 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	38%	67%	11%	15%	7%
Firm's trust-based DC scheme	16%	56%	12%	14%	18%
DC Master Trust scheme	48%	98%	2%	-	-
Other Multi-employer scheme	10%	25%	22%	27%	26%
Firm's defined benefit scheme	63%	20%	6%	33%	41%
Firm's mixed DB/DC scheme	2%	-	34%	33%	33%

(Source: ACA 2020 Pension trends survey, Table 3, page 28)

All footnotes in this Report are featured on page 27.

Section 3

Typical retirement ages: pace of change slows

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 66. And there has also been a reported trend for retirees to return to work after age 66. Individuals' circumstances and extended healthy lifespans for some combined with a pre-COVID strong employment market are seen as contributory factors. It will be interesting to see whether the rapid changes in the make-up of employments in 2020/21, due to COVID, have set in motion new trends.

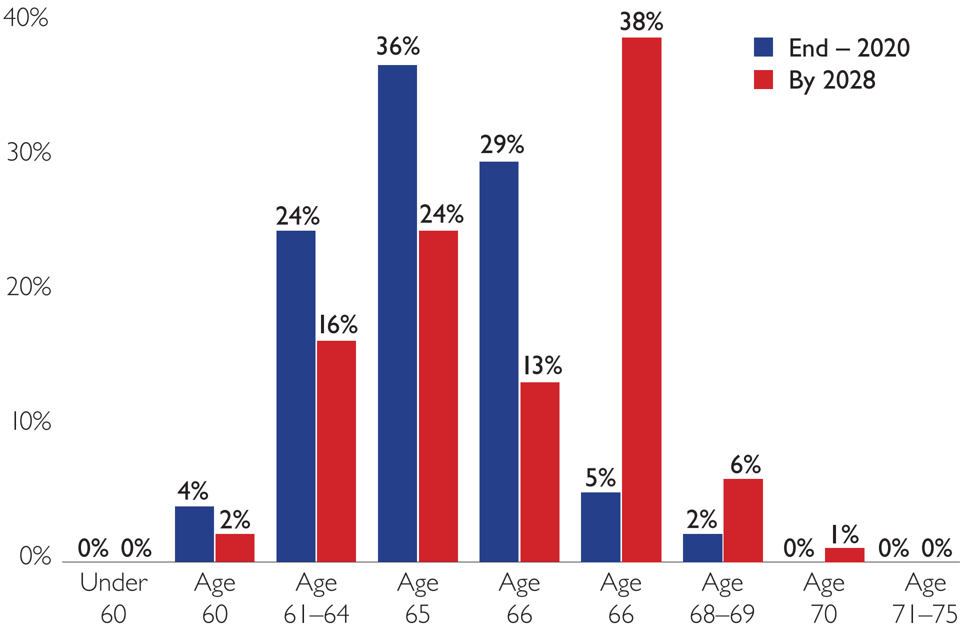
Our survey found:

- **7% of employers saying the typical retirement age in their firm is now above age 66, whereas a year ago the expectation was double this** *(see Figure 3, below)*.

However, as the State Pension Age increases to 67 (completed by April 2028), employers expect a significant increase in the typical retirement age.

- **45% of employers expect the typical retirement age to be above age 66 by 2028** *(see Figure 3, below)*.

Figure 3: Typical current retirement ages (at the end of 2020) and how employers expect this to change by 2028 (when SPA reaches age 67).



(Source: ACA 2020 Pension trends survey, Table 4, page 29)

It seems likely that economic conditions driven in part by the COVID-19 pandemic have reduced the eagerness for some to retire earlier than age 66, but the survey findings suggest this trend of later retirement may be being checked following the relatively sharp increases in SPA in more recent years. It will be interesting to see in a year's time what the trend is. Are we seeing, for example, changes in working lives that are now favouring younger employees to which both employers and those of advancing years are responding.

"The trend towards later retirement than SPA may be being checked by the increases in SPA in recent years"

Section 4

Pension contributions and auto-enrolment (AE) schemes

Our survey found:

- **Total contributions into defined contribution (DC) arrangements remained at 9–11% of earnings** *(see Figure 4, below)*.

The contribution levels into 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 three years that employers have lifted their contributions, albeit modestly, 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.

> ***"Despite increases in DC pension contributions they generally remain too low to provide a comfortable retirement income"***

- **Median combined employer and employee contributions into DC Master Trust arrangements are now reported at 10% of total earnings, which exceeds the level required under AE rules, which is 8% of qualifying earnings between presently £6,136[5] and £50,000pa.**
- **Median contributions into Defined Benefit (DB) schemes increased to 28-32% of earnings (excluding deficit contributions), indicative of the 'real cost' required to generate a more comfortable retirement income.**

Higher DB 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 2019 figures from the *ACA 2019 Pension trends survey report*)

	Employer		Employer
Contract based DC	5% (5%)		5% (5%)
Trust based DC	6% (7%)		5% (4%)
DC Master Trust	5% (4%)		5% (4%)
Other multi-employer schemes	5% (5%)		4% (5%)
Defined benefit (inc mixed DB/DC)	21-25% (16-20%)		7% (6%)

(Source: ACA 2020 Pension trends survey, Table 5, page 29)

This year's survey also found that:

- **12% of employers changed their pension offering in some way over the last year** *(see Table 6, page 29)*.
- **36% of employers reported employees showing greater interest or concern about the security of their pensions, with 31% reporting greater demand for improved pension communications and 52% expressing greater interest in investments in socially responsible environmental areas and climate. Of more concern, 20% also reported greater interest by members in reduced employee pension contributions and 17% more interest in removing cash from schemes** *(see Table 7, page 30)*.

All footnotes in this Report are featured on page 27.

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 (AE) reported elsewhere to date, with a figure of 9% across all employers[6] (increasing to around 13% – 23% amongst small and micro employers[7]). Data to date provided by DWP[8] 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. However, around seven out of ten of those ceasing membership of a scheme are because of a move in employment[9].

Our survey this year found that:

- **The median opt-out rate of employees at auto-enrolment staging was 1-5% across the sample as a whole, with this rising to between 6-10% across employers with between 250-4,999 employees and to between 11-15% for those employing fewer than 250 employees.**
- **The current median cessation rate (those leaving after the initial one month 'opt-out' period) is 6-10% of eligible employees across all employers, with higher cessation rates at employers with fewer than 250 employees** *(see Figure 5, below)*.
- **11% of employers saw more employees leave their AE scheme(s) in the last year, but this increased to 26% following the COVID outbreak** *(see Figure 6, page 15)*.

The data we have collected defines 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 are also likely to be due to either an unwillingness or inability to afford contributions due to the economic consequences of the COVID outbreak in terms of both lower pay and employment levels in firms of all sizes.

"One in four firms experienced more employees leaving their AE schemes in the wake of COVID-19 – a big increase on earlier periods"

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	1-249 employees	250-999 employees	1000-4999 employees	5000 employees +
Actual on staging	11 – 15%	6 – 10%	1 – 5%	1 – 5%
All median	← 1 – 5% →			

Cessation rate	1-249 employees	250-999 employees	1000-4999 employees	5000 employees +
Current cessation rate	11 – 15%	6 – 10%	6 – 10%	1 – 5%
All median	← 6 – 10% →			

(Source: ACA 2020 Pension trends survey, Table 8, page 30)

All footnotes in this Report are featured on page 27.

Figure 6: Changes in AE scheme membership over the last year pre-COVID 19. (Figures in brackets are 2019 survey results.)

Change in AE cessation rate pre-COVID 19	All employers	1-249 employees	250-999 employees	1000-4999 employees	5000 employees +
Substantial increase	**6% (9%)**	7%	7%	4%	8%
Modest increase	**12% (10%)**	10%	14%	16%	11%
No significant change	**75% (78%)**	78%	71%	75%	73%
Greater AE take-up	**7% (3%)**	5%	8%	5%	8%

Changes in AE scheme membership post-COVID 19

Change in AE cessation rate post-COVID19	All employers	1-249 employees	250-999 employees	1000-4999 employees	5000 employees +
Substantial increase	**10%**	10%	13%	9%	8%
Modest increase	**18%**	18%	20%	20%	15%
No significant change	**70%**	71%	64%	70%	75%
Greater AE take-up	**2%**	1%	3%	1%	2%

(Source: ACA 2020 Pension trends survey, Table 9, page 30)

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 9.8 million employees[10] (plus many 'gig economy' workers and the self-employed[11]).

"Employees not eligible to be auto-enrolled total over 9.8 million with many more 'gig economy' workers excluded as well as the self-employed"

- **Our survey found the median level of those not eligible to be automatically enrolled was between 11-15% of employees, with this rising to 16-20% at smaller 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	1-249 employees	250-999 employees	1000-4999 employees	5000 employees +
Median	**11-15%**	16-20%	11-15%	5-10%	5-10%

(Source: ACA 2020 Pension trends survey, Table 10, page 31)

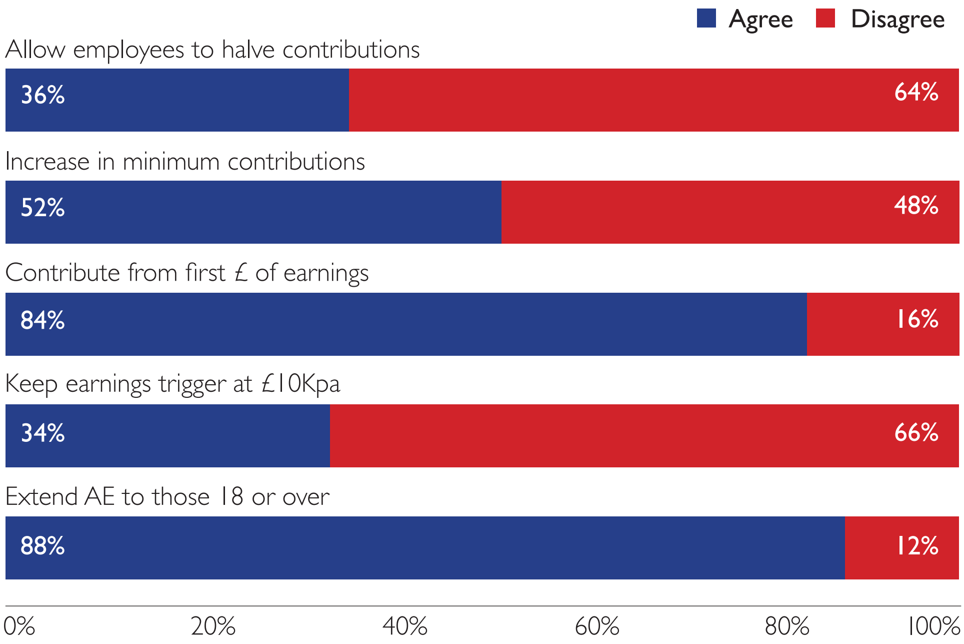
Automatic Enrolment Review

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:

- **88% support over 18s being eligible for AE and 84% support AE applying from the first £1 of earnings** *(see Figure 8, below)*.

Figure 8: Employers' views on various proposals to maintain and extend AE coverage



(Source: ACA 2020 Pension trends survey, Table 11, page 31)

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 the economy (hopefully) recovers in the next year or so.

- **Should the Government ultimately decide to increase minimum AE contributions from, say April 2022, the median acceptable level supported by employers was a minimum total AE contribution of 10% with a minimum employee contribution of 6% of total earnings**[12] *(see Figure 9, page 17)*.
- **As might be expected, whilst smaller firms are opposed to seeing any further increases in AE minimum contributions, larger employers were prepared for total minimum contributions to increase to at least 12% of earnings.**

"Larger employers see a pathway to increasing minimum AE contributions to 10% of total earnings or more"

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 2022. Median responses.

Median	All employers	1-249 employees	250-999 employees	1000-4999 employees	5000 employees +
Minimum employee AE contribution	6% (5%)	5%	5%	6%	7%
Minimum total AE contribution	10% (10%)	8%	10%	12%	12%
Qualifying Earnings	Total Earnings no cap	Present band	Total Earnings with cap	Total Earnings with no cap	Total Earnings with no cap

(Source: ACA 2020 Pension trends survey, Table 12, page 31)

Social care

In the near-term the Government has boosted 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.

"60% support tax changes to encourage care costs to be met from private pensions"

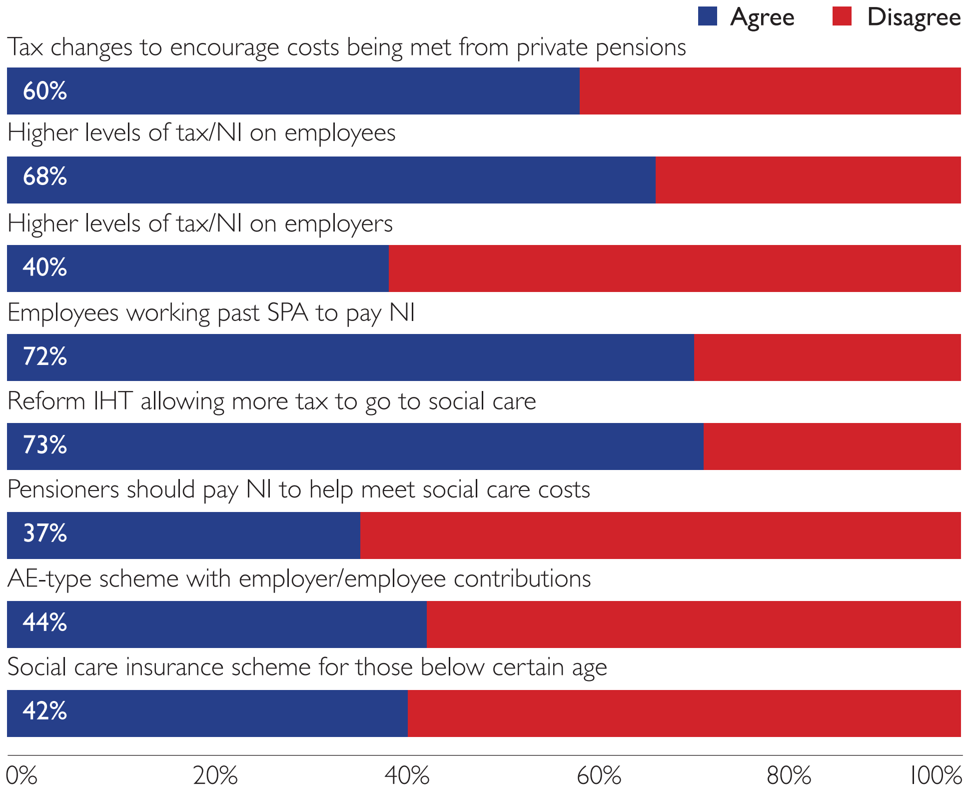
At the time of writing (and we commented the same last year!), an initiative to try and identify a consensus on social care reform and/or a White paper is expected from the Government on this issue.

Our survey findings this year were:

- **60% support tax changes to encourage social care costs to be met from private pensions (compared to 41% a year ago).**
- **68% of employers agree with higher social care costs being supported by higher levels of tax or NI by employees, with 72% saying those working past State Pension Age should pay employee NICs.**
- **73% support inheritance tax being increased to allow more tax to go towards social care.**
- **42% 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 10, page 18)*.

We have also published a *Placard*[13] 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[14] Health & Care Working Party.

Figure 10: Employers' views on the following longer-term approaches to meeting social care costs



(Source: ACA 2020 Pension trends survey, Table 13, page 32)

All footnotes in this Report are featured on page 27.

Section 5

Pensions Schemes Act, DB consolidation and Climate change risks

The survey examined employers' and schemes' views on the *Pension Schemes Act* as it was making its progress through Parliament. In particular, we focussed on views relating to the new DB funding code consultation, the pensions dashboard and the development of thinking on Collective Defined Contribution (CDC) schemes.

This section of the report also considers responses to questions on the progress towards consolidation of DB schemes and schemes' attitudes towards climate change risks.

"Three out of four employers say DB costs create intergenerational unfairness between current and former employees and between different cohorts of employees"

Impact of costs associated with DB schemes

Before considering the issues raised by the *Pension Schemes Act*, we asked employers with DB schemes what impact the costs associated with defined benefit schemes are in a number of areas.

The findings indicated that:

- **52% say DB costs hamper pension contributions into other schemes organised for the current workforce.**
- **81% say DB costs create intergenerational unfairness between current and former employees and 74% between different cohorts of employees** *(see Table 14, page 32)*.

These findings underscore the need for further legislation to be proportionate in protecting existing DB scheme members whilst also not furthering the imbalance in benefits away from existing private sector employees, who predominantly are now in DC arrangements.

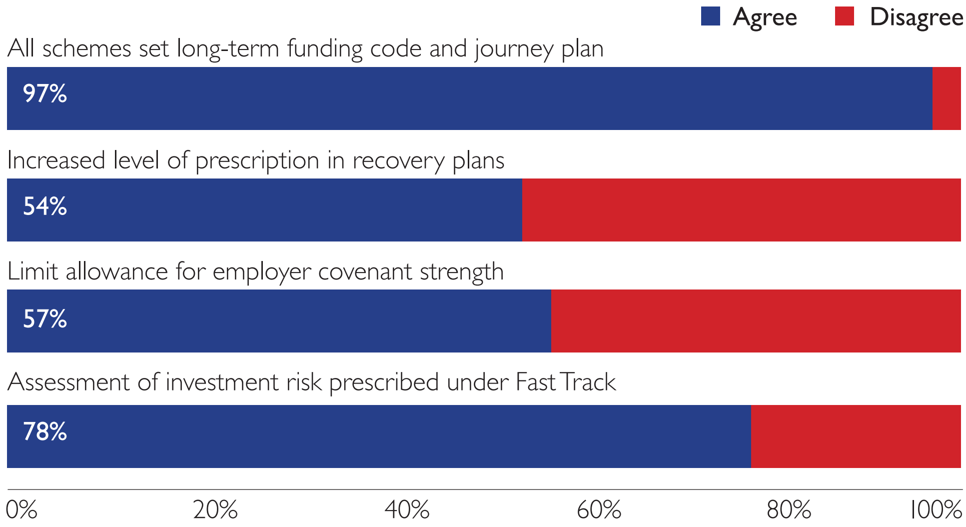
Defined Benefit Funding Code

The Government and TPR should be encouraged by the broad support for the new DB Funding Code that we found in survey responses. But with 1 in 4 employers being against the direction of travel, work is needed to resolve the challenges for schemes still open to new members and making the new framework fit for a post-COVID world.

- **72% support the Fast Track and Bespoke compliance proposals, but over a quarter oppose TPR's overall direction of travel** *(see Tables 15 and 17, page 33)*.
- **97% support schemes setting out their long-term funding target with a journey plan towards this target** *(see Figure 11, page 20)*.

All footnotes in this Report are featured on page 27.

Figure 11: Employers' views on the DB Funding Code proposals



(Source: ACA 2020 Pension trends survey, Table 16, page 33)

Pension dashboard: one only, please

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 Act*, but with the initiative being largely industry-led.

Our survey found:

- **82% oppose multiple dashboards and dashboards that do not include State Pensions.**
- **Less than half have cleaned their data in readiness for a pension dashboard.**
- **Just over a half (54%) support a dashboard being launched covering only some types of private schemes** *(for more details, see Table 18, page 33)*.

Collective Defined Contribution (CDC) schemes: cautious, but growing, interest

The government has strongly endorsed the establishment of a new pension scheme option for employers and is implementing the new opportunity via the current *Pension Schemes Act* whereby Royal Mail, and ultimately then other employers, can introduce Collective Defined Contribution (CDC) schemes. The growth in support we found for the CDC option being offered is encouraging, although it is important that this advances over time to suit other CDC designs, given they may differ from what is being proposed by Royal Mail. The regulations must also open-up to support multi-employer CDC schemes, and there is welcomed support in the survey for Master Trust CDC solutions.

"Close to a half of employers feel there needs to be an ability to set up CDC Master Trusts"

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 suggests many employers remain to be convinced.

How to communicate CDC's benefits to members is also a big concern, presumably particularly for those employers still sponsoring defined benefit arrangements for at least some existing employees.

Our survey found that:

- 52% support CDC being made available to employers other than Royal Mail, with 12% of employers considering using such a scheme.
- Whilst 38% thought CDC schemes would probably offer a better pension outcome for members, 58% are unsure.
- 46% of employers felt there needed to be an ability to set up CDC Master Trusts.
- 58% think CDC will be hard to communicate to employees *(see Table 19, page 34)*.

Climate change risks

Our survey revealed a huge increase in member interest in investments in socially responsible, environmental and climate areas *(see Table 7, page 30)*. This substantial engagement from members does not appear to have been matched by strategic change within DC schemes, although DB funds have been more active in this area.

Whilst more pension schemes are moving towards TCFD reporting[15], Government policy to make climate-related risk disclosures mandatory will mark a real shift in how seriously pension schemes need to think about climate change, but our findings suggest many schemes have some way to go in recognising the challenges.

Our survey found:

- **52% of schemes report greater interest from members in investments in socially responsible, environmental and climate areas** *(see Table 7, page 30)*.
- **36% of DB schemes say they have not considered climate change risk at all in the context of their sponsor's covenant.**
- **In selecting investment managers, 45% of schemes take climate risk into account along with other investment criteria in appointing investment managers.**
- **23% take no account of climate risk in their manager selection decisions.**
- **Whilst 37% of DC schemes say members can self-select sustainable/low carbon funds, the vast majority of DC savers (92%) invest upwards of 80% of their savings in default funds.**
- **Just 12% of DC schemes say they have a default fund that presently takes account of climate risk with a further 16% reviewing their approach.**
- **55% of DB schemes responding to the survey say they have made or are actively considering asset allocation changes in their investments to minimise climate change risks or to enhance opportunities, but 36%, following a review, are not making asset allocation changes as a result** *(See Tables 20–24, page 34–35)*.

"Our findings suggest many schemes have some way to go in recognising climate risks"

All footnotes in this Report are featured on page 27.

DB scheme consolidation

The quite rapid advance in support of DB consolidation we found in this year's survey findings probably reflects mounting concerns of some employers over the future in both economic and regulatory terms. It is a shame the *Pension Schemes Act* did not incorporate consolidation measures to back up the recent guidance from the TPR but we are encouraged by the suggestion that another Pensions Bill may take this forward in the near future.

- **65% say consolidation is a 'good thing' compared to just 39% a year ago.**
- **A majority say it would be more likely if benefits could be simplified too** *(see Table 25, page 35)*.

DB transfer requests

The survey results also point to a continuation in the trend, albeit at a 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.

- **Whilst 32% of employers reported transfer requests increasing in number, 35% said they were decreasing.**
- **6% of employers (down from 17% last year) say the incidence of transfer requests from defined benefit schemes exceeds 5% of scheme members, but with just 3% reporting completed transfer settlements exceeding 5% of scheme members** *(see Tables 26–8, page 35–36)*.

The concerns about the availability of independent advice are compounded by the appropriateness of the regulated advice available to DB scheme members. Other research[16] 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 is not surprising. DB pensions are complex and varied and their value is not well understood.

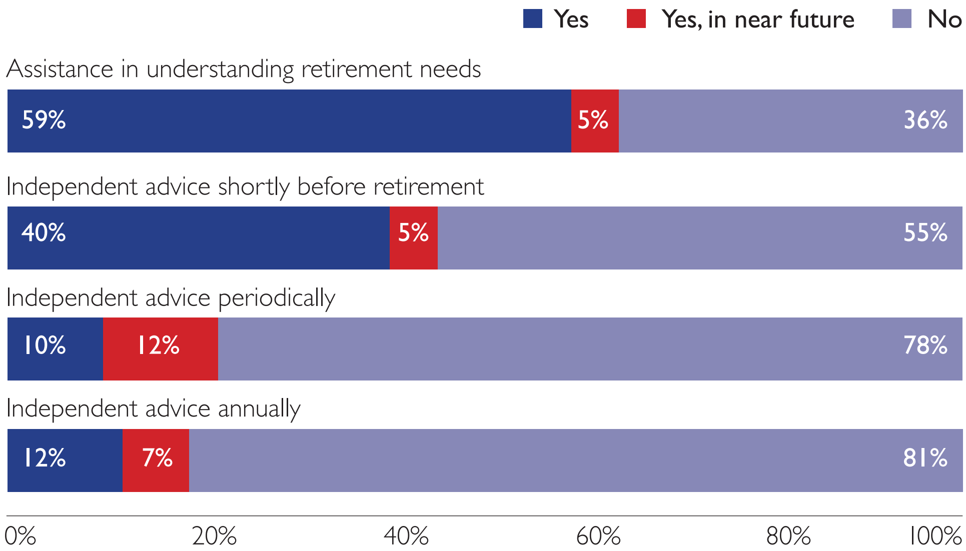
Our separate findings on the extent to which employers and schemes are addressing providing guidance and independent advice to members are set out below. These suggest employers are doing more for their employees to help them understand their retirement spending needs with more offering access to independent advice shortly before retirement, but a minority offering this at earlier stages:

- **45% provide (or plan to provide in the near future) access to independent financial advice to employees close to retirement** *(see Figure 12, page 23)*.
- **39% say members are experiencing difficulty in finding advice on DB transfers** *(see Table 30, page 36)*.

"Comparing a DB pension to uncertain post-transfer investment returns and income choices is fiendishly complex"

All footnotes in this Report are featured on page 27.

Figure 12: 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 2020 Pension trends survey, Table 29, page 36)

All footnotes in this Report are featured on page 27.

Section 6

Pensions taxation and GMP equalisation

Pensions taxation

The survey findings underscore the degree to which the present pension tax regime has been distorted by short-term tinkering over the years. It is having an impact on the economy by reducing productivity and workplace cohesion.

"The present pension tax regime has been distorted by short-term tinkering over the years. It is having an impact on the economy by reducing productivity and workplace cohesion"

The message is that there is a now an urgent need for HMT and industry practitioners to find a consensus around the best way forward. The mounting lack of understanding of the current complex regime and the adverse impact on business means that this task cannot be put off.

In summary, the findings were as follows:

- **79% of employers say the complex pensions tax regime is negatively impacting their business; and 89% say it needs simplifying even if that means some people are worse off.**
- **Whilst respondents remain split over how to reform the regime, more than three-quarters say the 2020 Budget changes have not mitigated the problems they are facing and 78% support more help for those on lower incomes even if this means less relief elsewhere.**
- **At a time when Government is supposed to be supporting businesses, the negative impact of the current regime on UK businesses includes skilled staff retiring prematurely (27%) and pressure to change pay and benefits packages (36%).**
- **Whilst a majority oppose pension tax relief being reduced to help cut public spending post-COVID-19, 40% are prepared to see this happen on future savings (but not past savings)** *(see Tables 31–33, pages 36–37)*.

GMP Equalisation

Pension provision is often criticised for being overly complex. The dual record approaches to equalisation add yet more complexity, largely unfathomable to members. Using GMP conversion to equalise for GMPs both avoids that additional complexity and provides an opportunity for simplification. This has benefits for members (particularly lower earners), for employers, for the pensions industry and for government departments.

"Many employers and pension scheme trustees are keen to use GMP conversion, if the barriers can be removed/lowered"

As our survey found this year, many employers and pension scheme trustees are keen to use GMP conversion, if the barriers can be removed/lowered. Just one more example of the complexity highlighted elsewhere in our survey, employers (and trustees) are seeing the current pensions tax legislation as a material, illogical and disproportionate block.

The survey findings can be summarised as follows:

- **The vast majority of schemes expect to complete GMP equalisation in the next 3 years, but 34% are still at the initial planning stage and 6% have taken no actions at all so far** *(see Tables 34/35, pages 37)*.
- **Compared to a year ago, poor data has moved up the ranking table as one of the biggest challenges in dealing with GMP equalisation – but still behind the administrative complexity and costs involved** *(see Figure 13, over page)*.

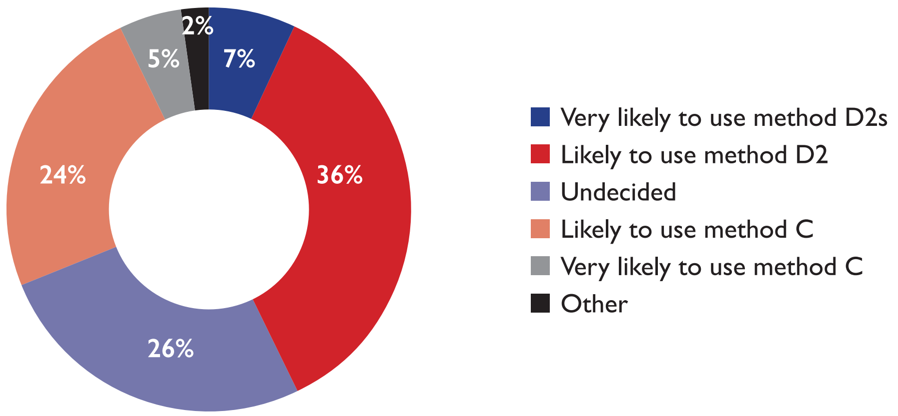
Figure 13: Employers' ranking of biggest challenges in dealing with GMP equalisation (2019 ranking in brackets)

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

(Source: ACA 2019 Pension trends survey, Table 36, page 38)

- **43% of respondents are likely to simplify their schemes by converting GMP at the same time (method D2), rather than the year on year dual records approach (method C), with this rising to 60% if tax and legislation issues were resolved by HMT, HMRC and DWP, with a further 20% currently undecided** *(see Figure 14, below and Table 38, page 38)*.

Figure 14: Employers' likelihood of using 'method C' (year on year calculations and dual records) or 'method D2' (GMP conversion) when equalising pensions



(Source: ACA 2020 Pension trends survey, Table 37, page 38)

NOTE: The 7% and 36% sections above become 60% if tax and legal issues are resolved.

Section 7

Wider savings opportunities

Workplace savings schemes and flexible savings options

"Six out of ten employers think more flexibility would increase employee saving"

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:

- **19% of employers presently offer a corporate ISA or other form of workplace savings in addition to a pension scheme (up from 9% last year) and 28% felt this was a likely option they might consider in the next 2 years** *(see Table 39, page 38)*.
- **62% think more flexibility would increase employee saving (up from 53% last year).**
- **47% say 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 40, page 38)*.

To provide greater incentives for higher levels of pension savings by younger employees, and support the wider AE measures we have suggested, the Government should relax current rules and implement an extension of pension freedoms allowing early access of up to a maximum of £30,000 (or 50%, if lower) of individuals' pension funds that are currently available only from age 55. This amount is consistent with the "trivial commutation" limit often applied to the return of "small" pension funds to older savers. These funds could be used to meet a short and specific list of eventualities, such as following job loss in future pandemic scenarios, or potentially to help fund house deposits.

Footnotes

[1] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/923565/2020_Business_Population_Estimates_for_the_UK_and_regions_Statistical_Release.pdf , published October 2020.

[2] AE Commentary and Analysis, April 2018-March 2019, published by TPR, October 2019.

[3] https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/automatic-enrolment-declaration-of-compliance-report published by TPR, December 2020.

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

[5] Increasing to £6,240 and £50,270, respectively, for the 2021/2 tax year.

[6] See Employers Pension Provision Survey 2017, published by DWP, June 2018, page 70.

[7] See Automatic enrolment: Quantitative research with small and micro employers, published by DWP, June 2018, pages 48-56.

[8] See Employers Pension Provision Survey 2017, page 72.

[9] Ibid, page 76

[10] https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/automatic-enrolment-declaration-of-compliance-report published by TPR, December 2020.

[11] 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).

[12] April 2020/21 minimum AE contributions are 8% of earnings between £6,136 and £50,000 earnings (2019/20 band) with a minimum of 3% from employers. 2021/22 figures are £6,240 and £50,270.

[13] Placard, Issue 37, see www.aca.org.uk, publication dated 25 September 2018.

[14] Institute and Faculty of Actuaries.

[15] Task Force on Climate-related Financial Disclosures (TCFD)

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

Statistical Appendix

ACA 2020 Pension trends survey results

The survey was conducted by the Association of Consulting Actuaries (ACA) in the summer of 2020 for online completion and was circulated to UK employers of all sizes, selected on a random basis. Responses were received from 281 employers with over 500 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	10-249 employees	250-499 employees	500-999 employees	1000-4999 employees	5000 employees +
4%	28%	8%	12%	20%	28%

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 – 50%	Over 50%
41%	26%	30%	3%

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	38%	67%	11%	15%	7%
Firm's trust-based DC scheme	16%	56%	12%	14%	18%
DC Master Trust scheme	48%	98%	2%	-	-
Other Multi-employer scheme	10%	25%	22%	27%	26%
Firm's defined benefit scheme	63%	20%	6%	33%	41%
Firm's mixed DB/DC scheme	2%	-	34%	33%	33%

Typical retirement ages

Table 4: Typical current retirement ages and how employers expect this to change by end-2020 (when SPA reaches age 66) and by end-2028 (when SPA reaches age 67). (Figures in brackets are 2019 survey results.)

<table>
<tr><th></th><th colspan="2">July 2020</th><th colspan="2">By end-2020</th><th colspan="2">By end-2028</th></tr>
<tr><td>Under 60</td><td colspan="2">2% (1%)</td><td colspan="2">- (-)</td><td colspan="2">- (-)</td></tr>
<tr><td>Age 60</td><td colspan="2">11% (8%)</td><td colspan="2">4% (6%)</td><td colspan="2">2% (<1%)</td></tr>
<tr><td>Age 61-64</td><td colspan="2">25% (23%)</td><td colspan="2">24% (9%)</td><td colspan="2">16% (5%)</td></tr>
<tr><td>Age 65</td><td colspan="2">50% (54%)</td><td colspan="2">36% (20%)</td><td colspan="2">24% (12%)</td></tr>
<tr><td>Age 66</td><td>8%</td><td rowspan="2">(11%)</td><td>29%</td><td rowspan="2">(62%)</td><td>13%</td><td rowspan="2">(58%)</td></tr>
<tr><td>Age 67</td><td>2%</td><td>5%</td><td>38%</td></tr>
<tr><td>Age 68-69</td><td colspan="2">2% (3%)</td><td colspan="2">2% (3%)</td><td colspan="2">6% (20%)</td></tr>
<tr><td>Age 70</td><td colspan="2">- (-)</td><td colspan="2">- (-)</td><td colspan="2">1% (4%)</td></tr>
<tr><td>Age 70</td><td colspan="2">- (-)</td><td colspan="2">- (-)</td><td colspan="2">- (<1%)</td></tr>
</table>

Pension contributions and auto-enrolment schemes

Table 5: Median contribution rates into pension arrangements provided by responding employers (by types of scheme). Rates exclude any extra DB employer deficit contribution. (Figures in brackets are 2019 survey results.)

	Employer		Employee
Contract based DC	5% (5%)		5% (5%)
Trust based DC	6% (7%)		5% (4%)
DC Master Trust	5% (4%)		5% (4%)
Other multi-employer schemes	5% (5%)		4% (4%)
Defined benefit (inc mixed DB/DC)	21 – 25% (16 – 20%)		7% (6%)

Table 6: Pension changes made by employers in the last year

	Percentage
Changed pension offering to employees	12%
Introduced a new Master Trust scheme	8%
Switched AE scheme provider	6%
Reduced employer DC contributions because of COVID-19 situation	4%
Closed an 'old' trust-based DB scheme to future accrual	3%
Closed an 'old' trust-based DC scheme	5%
Other – increased employer contributions	1%

Table 7: Employers reporting employees showing greater interest or concern in the following areas over the last year

	Much more interest	More interest	No change	Less interest
Investments in socially responsible, environmental areas and climate	6%	46%	40%	8%
Level of charges	3%	14%	83%	-
Reducing employee contributions	5%	15%	76%	4%
Removing cash from schemes	6%	11%	75%	8%
Scheme governance issues	-	5%	92%	3%
Investment returns on their pension	7%	31%	60%	2%
Security of their pension	13%	23%	61%	3%
More choice in pension investment decisions	4%	12%	79%	5%
People requesting more pension communications	12%	19%	67%	2%
Raised intergenerational fairness issue	3%	8%	87%	2%
Personal pensions taxation	4%	14%	78%	4%

Table 8: 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	1–249 employees	250–999 employees	1000–4999 employees	5000 employees +
Actual on staging	11 – 15%	6 – 10%	1 – 5%	1 – 5%
All median	← 1 – 5% →			

Cessation rate	1–249 employees	250–999 employees	1000–4999 employees	5000 employees +
Current cessation rate	11 – 15%	6 – 10%	6 – 10%	1 – 5%
All median	← 6 – 10% →			

Table 9: Changes in AE scheme membership over the last year pre-COVID 19. (Figures in brackets are 2019 survey results.)

Change in AE cessation rate pre-COVID 19	All employees	1-249 employees	250-999 employees	1000-4999 employees	5000 employees +
Substantial increase	6% (9%)	7%	7%	4%	8%
Modest increase	12% (10%)	10%	14%	16%	11%
No significant change	75% (78%)	78%	71%	75%	73%
Greater AE take-up	7% (3%)	5%	8%	5%	8%

Table 9 continued: Changes in AE scheme membership post-COVID 19

Change in AE cessation rate Post-COVID19	All employees	1-249 employees	250-999 employees	1000-4999 employees	5000 employees +
Substantial increase	10%	10%	13%	9%	8%
Modest increase	18%	18%	20%	20%	15%
No significant change	70%	71%	64%	70%	75%
Greater AE take-up	2%	1%	3%	1%	2%

Table 10: 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 employees	1–249 employees	250–999 employees	1000–4999 employees	5000 employees +
Median	11-15%	16-20%	11-15%	5-10%	5-10%

Table 11: Employers' views on various proposals announced (and avoided) in the 2017 AE Review by DWP. (Figures in brackets are 2019 survey results.)

	Strongly Agree	Agree		Disagree	Strongly Disagree
Extend AE to those aged 18 or over	51% (40%)	37% (45%)		11% (13%)	1% (2%)
Keep earnings trigger at £10,000pa income	2% (6%)	32% (54%)		52% (31%)	14% (9%)
Contributions from first £ of earnings	23% (18%)	61% (64%)		9% (15%)	7% (3%)
Increase in minimum contributions to +8%	18% (11%)	34% (25%)		33% (48%)	15% (16%)
Allow employees to halve contributions	6%	30%		48%	16%

Table 12: Employers' views on the levels of minimum contributions they could support if the Government decided to increase minimum AE contributions from say April 2022. Median responses.

Median	All employees	1–249 employees	250–999 employees	1000–4999 employees	5000 employees +
Minimum employee AE contribution	6% (5%)	5%	5%	6%	7%
Minimum total AE contribution	10% (10%)	8%	10%	12%	12%
Qualifying Earnings	Total Earnings no cap	Present band	Total Earnings with cap	Total Earnings with no cap	Total Earnings with no cap

Table 13: 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? (Figures in brackets are 2019 survey results.)

	Strongly Agree	Agree		Disagree	Strongly Disagree
Tax changes should be made that encourage social care costs being met from private pensions	23% (5%)	37% (36%)		35% (49%)	5% (10%)
Costs should be met by higher levels of tax or NI on employees	9% (15%)	59% (46%)		29% (33%)	3% (6%)
Costs should be met by higher levels of tax or NI on employers	4% (NA%)	36% (NA%)		53% (NA%)	7% (NA%)
Employees working past SPA should pay NI to help meet costs	27% (11%)	45% (57%)		25% (11%)	3% (21%)
Inheritance tax should be increased allowing more tax to go towards social care	14% (15%)	59% (20%)		14% (48%)	13% (17%)
Pensioners should pay NI to help meet social care costs	14% (5%)	23% (20%)		61% (35%)	2% (40%)
Introduce an AE-type social care scheme with minimum contributions plus an opt-out option	3% (3%)	41% (32%)		50% (45%)	6% (20%)
Social care costs in old age should be met by a compulsory social care insurance scheme for t hose below a certain age which they pay into	3% (NA)	39% (NA)		54% (NA)	4% (NA)

Pension Schemes Act, Consolidation and Climate risks

Table 14: What impact have the costs associated with defined benefit schemes had on the following? (Figures in brackets are 2019 survey results.)

	Major impact	More impact in last year	Some impact	No impact
Pay increases	5% (4%)	9% (13%)	42% (39%)	44% (44%)
Pension contributions into other schemes	12% (13%)	20% (12%)	20% (30%)	48% (45%)
Inter-generational fairness between cohorts of current employees	17% (17%)	9% (13%)	48% (26%)	26% (44%)
Inter-generational fairness between current employees and retired/deferred members	12% (12%)	14% (11%)	55% (24%)	19% (53%)
Business performance	8% (11%)	11% (2%)	40% (48%)	41% (39%)
Business investment	9% (8%)	7% (4%)	23% (30%)	61% (58%)
Shareholder returns (e.g. dividends)	5% (6%)	9% (5%)	23% (44%)	63% (45%)
Management time spent on pensions	28% (30%)	11% (17%)	54% (51%)	7% (2%)

Table 15: The Pension Regulator's consultation on a new DB Funding Code proposes a two-track compliance process, with Fast Track and Bespoke options, with those schemes adopting a Bespoke approach being benchmarked against the Fast Track requirements. What is employers' view of this approach?

Strongly support	Support	Disagree	Strongly disagree
6%	66%%	18%	10%

Table 16: Employers' views on DB Funding Code proposals

	Strongly support	Support	Disagree	Strongly disagree
All schemes should set out their long-term funding target, together with a journey plan towards this target	37%	60%	3%	-
Limit allowance for employer covenant strength, based on visibility of covenant	4%	53%	37%	6%
An assessment of investment risks, which would be prescribed under Fast Track	9%	69%	18%	4%
An increased level of prescription for recovery plan length and structure	9%	45%	38%	8%

Table 17: Overall, how supportive are you of the direction of travel being taken by TPR in its new draft DB Funding Code?

Strongly support	Support	Neutral	Against	Strongly against
4%	41%	27%	25%	3%

Table 18: The Government, as part of the Pension Schemes Act, is supporting the idea of a pension dashboards. What are employers' views/actions on the following: (Figures in brackets are 2019 survey results.)

	Yes		No
Do members generally have access to inter-active websites giving them information about current savings/projected pension outcomes	82% (78%)		18% (22%)
Taken action to clean up pensions data in preparation for pension dashboard(s)	45% (45%)		55% (55%)
Should dashboard(s) be launched initially covering only some types of private schemes (e.g. DC not DB)?	54% (44%)		46% (56%)
Should dashboard(s) be launched initially without also including State pension benefits?	18% (30%)		82% (70%)
Employers believing employees will access a pensions dashboard at least once a year on average	59% (58%)		41% (42%)
Should there be a single dashboard	82% (NA)		18% (NA)

Table 19: The Pension Schemes Act introduces legislation enabling limited types of Collective DC schemes (CDC) and subsequently the option could be made available more widely. What are your views?

	Strongly agree	Agree	Not sure	Disagree/ Not likely
Support new option being available	9%	43%	41%	7%
Needs to allow for CDC Master Trusts	14%	32%	45%	9%
Think will probably offer a better pension outcome	15%	23%	58%	4%
Communication challenge to explain to members	22%	36%	38%	4%
Might your business consider introducing scheme	3%	9%	45%	43%

Table 20: Have you considered the following aspects of climate change in your scheme?

	Not at all	A little or informally	Substantial formal consideration
Sponsor covenant	36%	30%	34%
Overall investment strategy	-	64%	36%
Assets held	9%	47%	44%
Funding and long-term interest rates/inflation	19%	63%	18%
Governance	10%	35%	55%
Member communication	21%	52%	27%

Table 21: Employers are reflecting climate change in DB investments by:

	Percentage of Employers
We are changing our investment strategy to follow a Paris aligned 2 degree C pathway	1%
We are making asset allocation changes to minimise climate related risks/opportunities	55%
We have considered climate related risk/opportunities, but will not be making asset allocation changes	36%
We have not considered climate risk/opportunities, but will do so in next 12 months	8%
We will not be considering climate related risk and opportunities	-

Table 22: Impact of climate change on DC pension schemes

	%
Default fund is designed to follow a Paris aligned 2 degree C pathway	1%
Default fund is designed to enhance sustainability and/or be low carbon	11%
Reviewing our default fund to have a sustainability/low carbon focus	16%
Not considered it, but will align with regulatory requirements	27%
Do not think sustainability/climate change issues apply to our default fund	4%
Members are able to select sustainability and/or low carbon funds	37%
Looking to add sustainability and/or low carbon funds to the fund range	12%

(Note: More than one answer possible)

Table 23: Employers' offering DC Auto-enrolment: percentages of members who elect to invest in the default investment option

	Under 80%	80-89%	90-94%	95-99%	100%
Using default investment option	8%	12%	9%	27%	44%

Table 24: When selecting DB or DC asset managers, account taken of climate related risk and opportunities within their investment process for a particular asset class/strategy

	%
Will be a key driver on whether to appoint a manager or not	14%
We take into account alongside other criteria	45%
We do not take this into account	23%
Our delegated manager or platform takes this factor into account on our behalf	18%

Table 25: Employers' views on consolidating existing DB arrangements into 'consolidation vehicles/superfunds'. (Figures in brackets are 2019 survey results.)

	Strongly Agree	Agree	Undecided	Disagree	Strongly Disagree
Is consolidation generally a good thing?	25% (13%)	40% (26%)	27% (41%)	5% (17%)	3% (3%)
Support for initiatives to pass DB scheme liabilities to a consolidator at less than full buy-out by way of a premium	5% (4%)	48% (26%)	20% (26%)	23% (35%)	4% (9%)
Is there reputational risk for employers offloading liabilities to vehicles with lower capital requirements than insurers	17% (9%)	51% (65%)	20% (20%)	9% (4%)	3% (2%)
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	9% (5%)	52% (50%)	30% (33%)	6% (9%)	3% (3%)

Table 26: Over the last few months has the approximate number of transfer requests from your DB scheme(s) changed compared to the year before?

Increased	Remained same	Decreased
32%	33%	35%

Table 27: Did you suspend transfer values from your DB scheme(s) following COVID-19

Yes	No
2%	98%

Table 28: Employers reporting incidence of transfer requests by non-pensioner members from defined benefit schemes over the last few months and the number completed. (Figures in brackets are 2019 survey results.)

	Fewer than 5% of members	5-10% of members	Over 10% of members
Incidence of transfer requests	94% (83%)	5% (10%)	1% (7%)
Completed transfers	97% (91%)	3% (6%)	- (3%)

Table 29: 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. (Figures in brackets are 2019 survey results.)

	Yes	Yes, in near future	No
Assistance in understanding their retirement spending needs	59% (40%)	5% (19%)	36% (41%)
Independent advice shortly before retirement	40% (23%)	5% (10%)	55% (67%)
Independent advice periodically but not annually	10% (13%)	12% (8%)	78% (79%)
Independent advice annually	12% (7%)	7% (5%)	81% (88%)

Table 30: 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 2019 survey results.)

	Yes	No	Don't know
Had difficulty	39% (43%)	5% (9%)	56% (48%)

Pensions taxation and GMP equalisation

Table 31: Impact of restrictions in pension tax relief over recent years on businesses. (Figures in brackets are 2019 survey results.)

	Yes
No impact	21% (38%)
Caused senior / higher income employees to leave firms' schemes	45% (44%)
Caused skilled staff to retire earlier than they otherwise would or to work fewer hours	27% (21%)
Led to pressures to revise pay and benefits package	36% (23%)
Caused business to reconsider its pension arrangements	26% (21%)
Materially added to the cost or blocked a pension project	9% (NA)
Increase in employees requesting reduced benefits to pay tax charges ('scheme pays')	23% (21%)

(More than one answer possible)

Table 32: There is evidence that, for higher earners, restrictions in tax relief is leading to changes in working patterns that may be bad for society adding to the cost of running schemes and damaging pension saving. 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	32%	57%		7%	4%
Reform should target more help for lower income groups by reducing relief for higher income groups	23%	55%		20%	2%
The Lifetime Allowance should be abolished by general lowering of annual allowance	18%	32%		41%	9%
Tapered Annual Allowance should be abolished even if this requires reduction in annual allowance	32%	36%		23%	9%
For DB only the Lifetime Allowance should apply, for DC only the AA (with appropriate allowance rebalancing)	14%	41%		37%	8%
The 2020 Budget changes to the TAA has helped/mitigated	2%	22%		53%	23%

Table 33: Do you think it's reasonable to reduce tax relief for pensions in order to support the Government's spending during the COVID-19 crisis?

	%
Yes – for past and future savings	2%
Yes – for future savings	40%
No	58%

Table 34: The Lloyds case found that schemes should equalise benefits for the effect of unequal GMPs accrued between 1990 and 1997. How long do employers think it will take to fully equalise pensions for the effect of unequal GMPs in their schemes? (Figures in brackets are 2019 survey results.)

Not applicable – no GMPs	Less than 1 year	1-2 years	2-3 years	More than 3 years	Completed
4%	5% (9%)	44% (27%)	41% (45%)	4% (19%)	2%

Table 35: How far have you progressed your GMP equalisation project to date?

	Rank
Completed	2%
No actions to date	6%
Initial planning underway	34%
Have started working through our project plan	26%
Completed a material part	28%
No GMPs	4%

Table 36: Employers' ranking of biggest challenges in dealing with GMP equalisation. (Figures in brackets are 2019 survey results.)

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

Table 37: Employers' likelihood of using 'method C' (year on year calculations and dual records) or 'method D2' (GMP conversion) when equalising pensions. (Figures in brackets are 2019 survey results.)

	Percentage of Employers
Very likely to use method C	5% (10%)
Likely to use method C	24% (21%)
Undecided	26% (22%)
Likely to use method D2	36% (35%)
Very likely to use method D2	7% (8%)
Other	2% (4%)

Table 38: Employers' interest in using D2 (conversion) as their GMP solution for their scheme if the pensions tax and legislation issues were resolved

Yes	No	Don't Know
60%	19%	21%

Wider savings opportunities

Table 39: Percentage of employers offering a corporate ISA or any other form of workplace savings scheme in addition to a pension scheme and who might in the next 2 years.

At present	In next two years		
	Yes	Possibly	Definitely Not
19% (9%)	28% (13%)	38% (22%)	34% (65%)

Table 40: 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? (Figures in brackets are 2019 survey results.)

	Yes
Current workplace savings options offer sufficient flexibility	27% (45%)
Aggregate employee savings would increase if there was greater flexibility	62% (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?	47% (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)	46% (22%)

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