

COMMITTEE MEMORANDUM		
To: SHPS Committee	Date: 13 March 2009	Page 1 of 4
From: Logan Anderson Head of Customer Relations	Ref: LA.Trend.130309.	
Subject: Monitor Key Data and Trends		
The above topic is on the agenda for the meeting on:	24 March 2009	
The topic is for:	Information	
Background papers are:	Not applicable	

1. Purpose and Background

- 1.1. The Committee receives a paper annually covering key data and trends in UK pension provision.
- 1.2. This paper provides the Committee with some comparative information on pension provision in the UK based upon the NAPF's annual survey 2008 (released October 2008), which covers 7.1 million members in DB arrangements with assets of £454 billion.
- 1.3. Last year the Committee asked for average contribution rates to DB schemes to be included in this paper. This data does not feature in the NAPF survey. I have sourced figures from the Office for National Statistics' Occupational Pension Schemes Annual Report 2008, which provides an analysis of the 2007 Occupational Pension Schemes Survey.

2. Schemes' Status

- 2.1. 28% of private sector DB schemes surveyed are still open to new members (compared with 31% in the 2007 survey); only 4% of DB schemes are closed to future accrual or winding up.
 - 2.1.1. 37% of respondents expected not to make changes to their DB schemes in the next 5 years. 53% expected to make no changes for existing members. 21% expect to be offering DC to new members in 5 years' time. 25% of respondents did not know whether they would make changes or not. This uncertainty is not surprising given that Personal Accounts will be introduced in 2012 and full details were not (and indeed are still not) known.

2.1.2. Data were gathered in June and July 2008; recent market upheaval and the impact on scheme funding may since have altered respondents' views.

2.1.3. The composition of the average DB scheme was 23% active members, 39% deferred and 38% pensioners. The SHPS statistics are 43% active, 42% deferred and 15% pensioner members.

2.2. Respondents reported 650,000 DC scheme members with £9.5bn of assets. Mean membership is 3421 (up from 2600 in 2007) and median membership is 700 (550). The average fund value per member was £18500 compared to £8000 in 2007.

3. Average Contributions to DB Schemes

3.1. The ONS Occupational Pension Schemes Survey 2007 found that average contributions to all DB schemes were 4.9% (members) and 15.6% (employers).

3.2. The average contribution rates to open DB schemes were 5.5% (members) and 15% (employers).

4. Scheme running costs

4.1. The NAPF found that most scheme costs have increased again since their 2007 survey.

4.2. For the median scheme, spending on administration and communication has fallen by 12%, possibly due to better use of technology, bedding-in of A-day changes and increased competition in the administration marketplace.

4.3. The median cost of scheme governance and trustee training has increased by 25%.

4.4. Fund management and custody fees increased by 20%, and professional fees (actuaries, solicitors, accountants and consultants) increased by 19%.

4.5. Levies (to the Regulator and PPF) increased by 74%.

5. Funding Information

5.1. Funding levels stayed the same or improved slightly compared to 2006 and 2007. On average, DB respondents were:

- 101% funded on their s179 (PPF) basis
- 94% funded on their technical provisions and 96% funded on their FRS17/IAS19 basis
- 65% funded on the solvency or buy-out basis.

5.2. 15% of respondents have put contingent assets in place to assist with the management of their PPF levies and to satisfy investors looking at the balance sheet. However, of the remainder, 89% have not considered contingent assets.

- 5.3. 5% of schemes had obtained a full buy-out quote and 10% a partial buy-out quote. A further 10% had considered obtaining a full buy-out quote and 25% had considered obtaining a partial buy-out quote.

6. Investment Information

- 6.1. The trend away from equities continues.
- 6.2. The average asset allocation per scheme was found to be 51% equities, 33.2% fixed interest and 15.8% cash and alternative investments. The corresponding figures for 2005 were 62.9% equities, 29.1% fixed interest and 8% cash/alternatives.
- 6.3. 23% of schemes have implemented a Liability Driven Investment strategy; a further 41% have considered implementing this.

7. DC Schemes

- 7.1. In 2005 89% of DC schemes were trust-based; this number has now fallen to 54%. Group Personal Pensions now account for 21% of DC schemes, up from just 8% in 2005.
- 7.2. Average employer and member contributions are 7.3% and 4.4% respectively of pensionable earnings. 57% of schemes use matching contributions and 22% have age-related contributions.
- 7.3. Pensionable earnings include
- Basic pay (94% of schemes)
 - Variable payments (24%)
 - Bonuses (12%)

However 6% of schemes include an offset (e.g the lower earnings limit) to the definition of pensionable earnings; 2% operate a cap at the Upper Earnings Limit, and 18% of schemes include a notional earnings cap.

- 7.4. 85% of DC schemes have a default fund (for members who do not feel able to choose how their contributions should be invested). An average of 82% of members use their default fund.
- 7.5. 85% of DC schemes feature lifestyling (which progressively switches members' funds to less volatile assets in the lead-up to retirement). The majority of default funds (89% - up from 79%) feature lifestyling.
- 7.6. At retirement all schemes must allow members to find their own annuity provider if they wish - the 'open market option' or 'OMO'. 20% of schemes offer the OMO as standard; 20% of respondents offer the OMO alongside a general default annuity for those who do not want to choose; 35% offer a more bespoke service (often via an intermediary).

- 7.7. 57% of retiring members chose a level annuity; 38% opted for some element of post-retirement indexation.
- 7.8. 52% of schemes are reviewed periodically; 22% of schemes review the contract annually. 33% of schemes use an independent financial adviser to conduct the review. 25% of schemes have a formal governance or management committee.
- 7.9. Few schemes have a formal mechanism for seeking members' views. 14% of schemes have a members' consultative group; only 5% of schemes have a staff forum for the DC schemes.

8. Communications

- 8.1. 68% of schemes have a website with information for members. In 40% of cases the website is more detailed and members can access pension calculators or their own account balances.
- 8.2. 60% of schemes have group meetings to communicate pensions issues to members.
- 8.3. 37% of schemes give one-to-one 'advice' to members. 33% offer combined pension forecasts (these include estimated state pensions at retirement) and 29% offer risk-grading of investment options. Only 8% of schemes do not offer any kind of communications to help members understand their pension scheme.

9. 2012 Pension Reforms

- 9.1. In 2012 (or a little later, depending on phasing arrangements) employees will have to be auto-enrolled into a 'qualifying' scheme and minimum contributions must be paid.
- 9.2. 50% of respondents would have to introduce auto-enrolment and 13% would have to apply auto-enrolment more widely than they do at the moment.
- 9.3. 11% of schemes would have to reduce restrictions on eligibility.
- 9.4. 15% of schemes would have to increase contributions or benefits for some existing members in order to comply with the minimum provisions from 2012.
- 9.5. 67% of schemes said they would use their existing scheme at current contribution rates post-2012. 4% said they would reduce contributions for new members, and 3% would reduce contributions for new and existing members.

10. Conclusion

- 10.1. The Committee to note the position.