

IDS Pensions Bulletin

Incomes Data Services is the UK's leading independent research and information service on employment matters. The IDS Pensions Service has three elements: an annual pension scheme benchmarking review; a series of practical handbooks; and the Bulletin, which is sent to subscribers ten times a year.

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The IDS Pensions Service has analysed the most recent annual reports and accounts of 52 DC occupational pension schemes. This shows that the annual average contribution paid in respect of active members was £3,874, while the average pension fund accrued by the active and deferred members in 43 of these schemes was £13,224. There is evidence, however, that the number of trust-based DC occupational pension schemes is in decline.

pb comment

Helen Sudell, Editor of IDS Pensions, looks at the latest DWP report on the implications of personal accounts on saving for retirement. *page 12*



News in brief

Corus closes DB scheme

Corus announced on 26 January 2009 that, as part of its strategic initiative to improve its competitive position, it will make changes to the British Steel Pension Scheme. It stated 'While the scheme is in a healthy position, the company will, in line with market practice, close the defined benefit scheme to new recruits, who will be offered a defined contribution scheme. Steps will also be taken to ensure that the company contribution to future service for existing members remains at 12 per cent'.

Stagecoach introduces PayPlus

From 6 April 2008 all employers participating in the Stagecoach Group Pension Scheme introduced a salary sacrifice arrangement known as PayPlus. Under PayPlus active members, other than those who opt out or fall into an excluded category, agree to reduce their contractual pay by an amount equal to the contribution they would otherwise make to the Scheme and this is paid instead by the employers. The Scheme's trustees formally adopted amendments to the rules to ensure pensionable pay and any arising benefits would not be affected by any reduction in actual earnings arising under PayPlus.

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Wiggins Teape slows accrual rates

An actuarial valuation as at 31 December 2006 of the Wiggins Teape Pension Scheme was agreed and signed off on 31 March 2008 as part of an overall agreement with the participating employers on various issues including guarantees, investment strategy and the replacement of the principal employer. The new guarantee provided by Sequana Capital SAS enabled the trustees to adopt a slightly less cautious set of assumptions to calculate the Scheme's technical provisions, which resulted in a deficit of £52.4 million. A revised schedule of contributions was adopted in which the participating companies agreed to continue to pay contributions of £9.9 million a year until 2012 with a balancing payment of £6 million in 2013.

The trustees reached agreement with the participating employers on 31 March 2008 regarding a number of matters including a new set of guarantees for up to £200 million which were provided by the participating employers, Sequana SAS and Arjo Wiggins SAS, which resulted in Sequana SAS being ultimately responsible for the Scheme's liabilities. The initial term of the guarantee is for a period of 15 years, extendable on three years' notice at the option of the guarantors.

Following the introduction of a new benefit structure on 1 January 2007, members electing to remain in the Scheme

began to accrue benefits at the rate of 1/130. This accrual rate, known as Level 1, has been, and continues to be, subject to annual review. Two higher accrual rates Level 2 and Level 3, ceased to be offered from 1 January 2007. Level 1 is non-contributory for active members.

Members can elect to pay contributions into the new Wiggins Teape Defined Contribution Pension Plan while retaining membership of the Wiggins Teape Pension Scheme. Members who opt for the Company contributions to be invested in the DC Plan also retain membership of the Wiggins Teape Pension Scheme at a zero accrual rate but with the option to switch back to the scheme at certain dates in the future, subject to the consent of the participating employers.

The outcome of the 2006 annual review was implemented on 1 February 2008 and resulted in the annual accrual rate being further reduced to 1/140. This reduction had been proposed on 29 November 2007 when a 60-day consultation period with active members began. The Trustees comment that despite reactions to the proposed change and further discussions with union and member representatives, the participating employers confirmed the change in the accrual rate in an announcement to all active members dated 1 February 2008.

Structural changes made to the Bank of England Pension Fund

The latest annual report and accounts for the Bank of England Pension Fund comments that it had been a year of structural change for the Fund. The Bank completed its review of pension provision with the result that new recruits will be offered membership of a career average revalued earnings section within the scheme rather than the existing final salary section which continues to provide benefits for existing staff. The final salary section was closed on 30 September 2007 and

the average salary scheme was opened the following day.

At the request of the Bank, and after careful consideration, the Trustee made a fundamental change in its investment strategy. As a result of this change the Fund is now predominately invested in gilt-edged securities.

Following a separate decision by the Bank to stop providing investment management services to the Trustee, the Trustee appointed Legal & General as its fund manager.

During the year the hitherto separate Court Pension Scheme was merged into the Bank of England Pension Fund. This scheme had been established to provide

benefits for those members of the Bank of England's Court of Directors rendering exclusive service to the Bank and for senior employees of the Bank.

Active Navigation held liable for death benefits

This case concerned a death-in-service scheme where one of the members, Mr Wade, died and a large lump sum death benefit became payable. The insurer refused to pay out in full because the benefit exceeded its free cover limit and no additional premiums had been paid. The legal personal representatives of Mr Wade brought a claim in the High Court against his former employer. The employer was directed to pay the difference between the amount for which the insurer was on risk and the full amount of Mr Wade's entitlement.

The facts

Active Navigation Limited (the employer) set up a death-in-service scheme with Legal & General (L&G/the insurer). The scheme provided benefits on the death of members of four times salary. Mr Wade was a member of the scheme and, at the time of his death, was earning £94,233. So, the amount payable on his death was £376,932.

However, the insurer failed to pay out in full for Mr Wade because not all of the terms of the policy backing the scheme had been complied with. It was on risk only for £260,000 (based on a maximum annual salary for any member of £65,000). Accordingly, it only paid out £260,000 leaving a balance of £116,932 (£376,932 minus £260,000). A claim was made by Mr Wade's personal representatives for that balance (plus interest).

The employer contended that it had done everything required of it to make sure that cover of four times Mr Wade's salary was put in place. The insurer had not, however, gone on risk because its free limit was £65,000 and to go on risk for larger sums additional premiums would be due.

Mr Wade had completed the member declaration form which the insurer needed to go on risk for benefits based on his full

salary and the form was submitted to L&G. The insurer, which was willing to cover Mr Wade in full, even sent a reminder quoting the additional premium required. However, the agreement of the employer to the higher loading was never received.

The decision

The High Court held that there was no contractual obligation on the employer to pay the balance of £116,932 because Mr Wade's contract of employment entitled him only to membership of the death benefit scheme in accordance with its rules.

Nevertheless, the Court held that the claim by the legal personal representatives succeeded in negligence because there had been an administrative failure, amounting to negligence, which was under the control of the employer. Principally, the employer was negligent because it intended Mr Wade to be covered for four times full salary but failed to ensure that its agreement to the additional premium for Mr Wade was sent to L&G.

Comment

This case highlights the necessity of ensuring that not only schemes, but the ancillary benefits provided by an employer are administered properly. Indeed, with the advent of personal accounts, the question of administration by sponsoring employers is going to be thrown into sharp relief. It is a good time to consider whether ancillary benefits are subject to procedures which are properly audited so as to ensure that the system is sound.

Case reference

Wade v Active Navigation Limited is reported in IDS Pensions Law Reports ([2009] PLR 13). This service includes the full decision of the case. For details on how to subscribe call Customer Services on 0845 600 9355 or visit the IDS website at www.incomesdata.co.uk

News in brief

PPF publishes trustee guide

The Pension Protection Fund (PPF) has published the 'Trustee Good Practice Guide'. This aims to help trustees better understand: the journey a scheme must make to complete the assessment period and the key activities it needs to undertake; the roles and responsibilities of the trustees during this period; what the PPF will expect from them; and how the PPF will support them. PPF Director of Delivery, Peter Walker, said: 'While the guidance is designed to support trustees through what is a complex and demanding time, it also makes clear to trustees what we expect of them at all stages of the process to ensure that schemes complete assessment within two years where practical'.

Guidance on record-keeping

The Pensions Regulator has published its final guidance on record-keeping following a 12-week consultation. The guidance helps those responsible for record-keeping and administration to put in place good practices for measuring the presence of member data. It also gives advice on assessing the risks of incomplete or inaccurate data. The guidance stresses the importance of numerical data, because such data give information regarding membership records and enable employers and trustees to consider whether the numbers reported are broadly consistent with their knowledge of the scheme.

Securing a retirement income from personal accounts

The Personal Accounts Delivery Authority (PADA) has published consultation concerning the process for securing a retirement income under the prospective personal accounts scheme, which will be established as a DC occupational pension scheme and will accept contributions from 2012. This is a 84-page document and below we highlight the key points and proposals in the consultation paper, *Building personal accounts: securing a retirement income*.

The consultation paper recognises that 'lifetime annuities' will be the best product for most people in the target market (ie low to moderate income earners with no pension provision). This includes level, joint life, escalating, investment-linked, guaranteed, impaired life and enhanced annuities. It comments, however, that whilst a significant number will be able to secure an annuity through the open market option (OMO), many members will need an alternative to this.

For members not wanting to use OMO, annuities could be sourced through a regularly reviewed panel of providers, with details held on the personal accounts website – PADA refers to this as choosing an annuity (from a limited, straightforward range) through the *focussed choice* option. Use of a single provider is **not** being recommended because of '*adverse long-term effect on competition in the annuity market*' [as well as administrative capability and capital constraints for high volume business].

PADA aims to develop a principally 'self-service' customer experience – maximising e-media, complemented by other channels.

There will also need to be a process for dealing with members who do not make any kind of choice and the consultation paper states – '*by the time a member has reached 75 years of age, is still in touch with the personal accounts scheme, and has not chosen to buy an annuity, we propose that the scheme's trustee will buy them an appropriate retirement income product*'.

Consideration has been given to the personal accounts scheme providing its own annuities (self-annuitisation) or purchasing annuities in bulk, but these are **not** being recommended due to a number of

drawbacks. This is an important factor because research shows that, when it comes to buying an annuity, members will often just take the one that the scheme offers.

Members will have to make decisions as part of the decumulation process (eg when to take a retirement income, the benefits to buy and whether to take cash). There are also a number of considerations around choosing an annuity. PADA wants to '*strike a balance between supporting members through their choices and guiding them through the issues they need to consider, whilst making it clear that the final decision rests with the member*'.

It is envisaged that information will be provided by the personal accounts scheme but not advice (the consultation paper comments on the content and timing of advice to members, eg it is assumed that the personal accounts scheme will need to provide information at least six months before a member's 'nominal' retirement age – which will start at age 65 but may rise in line with State pension age changes). The consultation paper, also, notes that members may approach their employers for help.

A two-stage structured choice approach is envisaged for buying an annuity – helping members decide the right *type* of product; and helping members choose a *specific* product and provider.

An objective is to ensure members are not disadvantaged when they have built up only small 'pots'.

The personal accounts scheme has to be flexible too, so members can access the various retirement income vehicles available on the market.

Members who want drawdown **will** be allowed to transfer out of personal accounts (*ie transfers are allowed for the purpose of securing a retirement income*). The personal accounts scheme will not, itself, offer drawdown.

The consultation paper also considers other 'technical and delivery' issues; eg if members want a lump sum then who should pay it – the personal accounts scheme or the provider of residual annuity (as an agent for the scheme)?

Also, consideration is given to members with small funds below the level at which providers are prepared to write annuity

business (the consultation paper suggests that there is typically £5,000 minimum in terms of annuity purchase price). Options to avoid 'stranded funds' include – using trivial commutation options (including the proposed new *de minimis* of £2,000); transfers to other schemes to combine funds; and making panel providers offer annuities for amounts as low as £2,000.

NI contribution changes update

The National Insurance Contributions Act 2008 (NICA) is a short, but important, statute which takes forward a 2007 Budget proposal that the upper earnings limit (UEL) for Class 1 National Insurance (NI) contributions be aligned with the level of earnings at which higher rate income tax becomes payable. The Act also brings forward the introduction of a new upper accrual point (UAP), contained in the Pensions Act 2007, with a view to making the State Second Pension (S2P) a flat-rate benefit from around 2030.

The NICA has not received a lot of publicity and yet it introduces changes that will have important financial and practical consequences for both employers and employees. In this article we look at the implications of these changes for occupational and personal pension schemes.

The NICA contains only two substantive measures:

- provision for the UEL to be aligned with the point at which higher rate income tax becomes payable, and
- the early introduction of a new UAP for the calculation of S2P and, for contracted out schemes and individuals, NI rebates.

Both changes principally take effect from April 2009, and their impact on employers, individuals and pension arrangements are explained more fully below.

Changes to the UEL

From April 2009, the UEL is to be aligned with the level at which higher rate income tax is payable. This alignment is achieved in two stages.

The first stage has already occurred and involved an increase to the UEL of £75

In total, the consultation paper raises 21 questions across its five substantive chapters and seven technical annexes (which include some useful research).

The closing date for responses to the consultation is 4 March 2009, and a copy of the paper can be found on the PADA website (www.padeliveryauthority.org.uk).

per week above inflation, for the 2008/09 tax year.

Stage two involves increasing the UEL in 2009/10 so that it becomes aligned with the level at which higher rate income tax becomes payable, after taking into account personal allowances (£844pw).

After 2009/10, the UEL will go back to being increased each year broadly in line with changes in the RPI.

Introducing the UAP

The NICA also provides for the early introduction of the UAP, which was included in the Pensions Act 2007. This is to ensure that changes to S2P, with a view to it being restructured as a simpler, flat-rate system, occur as originally intended. The UAP, which will be frozen upon introduction in 2009/10, is to be set at £770pw (£40,040pa).

The UAP will replace the UEL as the weekly upper cap on earnings when determining entitlement to S2P. Its introduction will also have an effect on calculations relating to the contracted out rebate. From April 2009, rebates will be based on earnings between the lower earnings limit (LEL) for NI and the UAP. In practice, because the UAP is fixed, the amount of the NI rebate will decrease in subsequent years.

The UAP will also be the upper limit for the calculation of qualifying earnings with regard to the 'reference scheme' that contracted out salary related pension schemes must meet in order to be contracted out.

The UEL will continue to act as the upper limit for full employee NI contributions – with the one per cent NI contribution level, used to fund the National Health Service, continuing to apply on earnings above the UEL.

News in brief

Regulator's statement on DB schemes

On 18 February the Pensions Regulator issued a statement to employers making defined benefit provision regarding the funding of their schemes. In it the Regulator recognises the difficulties being faced by employers in the current economic climate and sets out its general position which aims to reflect the prevailing conditions. The Regulator comments that there is no reason a pension scheme deficit should push an otherwise viable employer into insolvency. If an existing recovery plan is at serious risk of jeopardising the company's future health or solvency then this should be discussed with the scheme's trustees. But the recovery plan should not suffer, for example, simply in order to enable companies to continue paying dividends to shareholders.

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Update on contribution levels to trust-based defined contribution schemes

The IDS Pensions Service has analysed the most recent annual reports and accounts of 52 DC occupational pension schemes. This shows that the annual average contribution paid in respect of active members was £3,874, while the average pension fund accrued by the active and deferred members in 43 of these schemes was £13,224. There is evidence, however, that the number of trust-based DC occupational pension schemes is in decline.

Overall average contribution

In respect of all 52 defined contribution (DC) occupational pension schemes taking part in this research, the total number of active members as counted on the first day and the last day of each accounting period rose from 102,209 to 110,164. The average number of active members in all 52 schemes during the period therefore is 106,186.5.

The overall average annual contribution that may be calculated by dividing the total contributions from all sources (£411,394,000) by the total number of active members as averaged over the 12-month period is £3,874 pa.

The IDS Pensions Service has carried out eight annual surveys on DC occupational pension provision since 2002. Table 1 summarises the results from those surveys which provide one measure of how the overall average contribution to a DC occupational pension scheme has changed over these eight years.

Table 1 shows how the number of DC schemes in the survey, the total value of the contributions paid and the total number of active members have varied from year to year. Nevertheless the average contribution per active member generally shows a steady increase year-on-year from 2000/01 to 2005/06 inclusive – over those years the average contribution rose on average by £464 a year. In

2006/07, however, the average contribution fell by £348 from previous year. This aberration was not confined to the IDS findings – table 5 on page 11 shows that ONS data on DC contribution levels also fell at this time. The overall average contribution of £3,874 from our most recent survey therefore seems high in comparison to last year's depressed average contribution. But when compared to the earlier trend £3,874 is very much the value that would have been expected, being £893 higher than two years ago.

The average total contribution in relation to the median scheme in the latest survey is £3,494 pa.

Equating to a percentage

It is usual to express pension contribution rates as a percentage of the scheme member's pensionable earnings. It is straightforward to do this when the scheme rules stipulate that the scheme member pays, say, five per cent of their pensionable earnings, and the employer pays, say an additional amount equal to six per cent of the scheme member's pensionable earnings. In practice, however, the rules of many trust-based DC schemes provide that a range of contribution rates will apply. For example, the rules may specify a minimum core contribution from the scheme member and a minimum core

Table 1: Overall average contribution from all sources to DC

Scheme year end	Number of DC schemes in survey	Total contributions	Total active members (averaged)	Average contribution
2000/01	33	*£80,251,000	121,416.5	£661
2001/02	44	£259,805,000	198,476.0	£1,309
2002/03	52	£299,610,000	159,566.0	£1,878
2003/04	59	£293,318,000	138,639.0	£2,116
2004/05	70	£452,594,000	175,925.0	£2,573
2005/06	68	£517,825,000	173,722.0	£2,981
2006/07	57	£451,057,000	171,314.5	£2,633
2007/08	52	£411,394,000	106,186.5	£3,874

(* age-related payments to COMP schemes were not included in the 2000/01 survey)

contribution from the employer. Contributions made by the scheme member in addition to his/her core contribution may be matched by a contribution from the employer, perhaps on a 1:1 ratio but possibly on a 2:1 employer/employee ratio subject to a cap on the employer's total contribution. The National Association of Pension Funds (NAPF) Annual Survey 2008 reports that 57 per cent of its responding schemes use matching contributions as their base for contributing to the scheme and also 22 per cent make use of an age-related contribution structure.

In the case of the scheme member the only limit, unless the rules of the individual scheme itself set an upper limit on the amount of the employee's contribution, is the annual cap set by the Finance Act 2004 at 100 per cent of the member's UK annual taxable earnings (or £3,600 if this is higher). It is therefore often impossible to quote an overall contribution rate to a DC scheme other than an average member and an employer contribution rate calculated by the employer's payroll in a particular month.

Our research reports the absolute annual amounts of contributions paid into each DC scheme in that scheme's last annual report and accounts and without access to data on the total annual pensionable payroll of the DC active members. Nevertheless it is possible to ascribe a percentage contribution rate for the whole sample by using data from the Office of National Statistics' Annual Survey of Hours and Earnings (ASHE). ASHE estimates that the annualised mean gross earnings for an adult employee (taking in full-time and part-time male and female employees) in April 2008 was £24,623.

Our finding of an average annual contribution of £3,874 therefore represents 15.7 per cent of the ASHE mean earnings and on the basis of the data in table 3 on page 9 this can be split as an 11.7 per cent contribution from the employer and a four per cent contribution from the employee.

The NAPF 2008 Survey found that the average contribution rate in DC schemes as a percentage of the member's pensionable earnings was 7.3 per cent for employers and 4.4 per cent for employees – a joint total of 11.7 per cent. It should be noted, however, that some of the DC schemes in the NAPF Survey were contract-based rather than trust-based schemes.

The DWP's Employers' Pension Provision Survey 2007 (published in 2008) reported that the mean percentage contribution paid by the employer to a

DC occupational pension scheme was ten per cent of the employees' gross pay, and the median employer contribution was eight per cent. Both the mean and median contribution by members of a DC occupational scheme were found to be five per cent.

The Occupational Pension Schemes Survey 2007 (published by the ONS in 2008) found that in relation to open DC occupational schemes the employer contribution rate was 6.4 per cent and the employees' rate was 2.6 per cent – a joint rate of nine per cent. In relation, however, to closed DC occupational schemes, this survey found that the employer's rate was seven per cent and the employees' rate was 3.2 per cent – a joint rate of 10.2 per cent.

Data on individual schemes

Table 2 reports our detailed findings on the value of contributions paid into individual DC pension schemes coupled to the number of active members in the scheme. The average annual contribution payable in respect of an active member of a particular scheme is calculated by dividing the total value of the contributions paid from all sources into the scheme divided by the number of active members (as averaged between the number of active members at the start and end of the scheme year).

The median value of average total contribution over all 52 schemes is £3,494 pa compared to £3,305 pa in the previous year's results reported in *IDS Pensions Bulletin 213* in March 2008. Over the year the median scheme contribution rose therefore by 5.7 per cent.

Sources of contributions

Table 3 shows that overall the employer pays just under three quarters of all the contributions received by the 52 schemes in the survey and the contributions paid by the active members represent just under one quarter. The other sources of contributions, essentially transfers from surpluses held in a DB scheme operating under the same trust and from the age-related payments made by HMRC to contracted out money purchase (COMP) schemes, have now all but disappeared.

Net assets held

Table 4 on page 10 provides an analysis of the average value of the DC scheme's net fund per active and deferred member for 43 of the schemes. It should be noted that in practice not quite all of the DC net fund will be attributable to the

Table 2: Annual contributions paid into DC occupational pension schemes

Scheme	Employer's contribution (£'000s)	Employees' contribution including AVCs (£'000s)	Other (£'000s)	Number of active members		Average annual contribution (£s)
				Start	End	
Alstom	2,616	2,146	0	1,046	1,171	4,296
Associated British Foods	6,618	3,989	0	1,959	2,145	5,169
Associated British Ports	1,277	546	0	587	619	3,023
Aviva	43,318	7,419	0	17,258	15,950	3,056
BASF	2,695	1,372	0	608	646	6,486
BOC AVC	1,245	780	0	452	396	4,776
BOC RS section	5,932	2,139	0	1,431	1,685	5,180
British Alcan	85	68	0	15	46	5,016
BT Retirement Plan	42,396	24,533	0	15,304	17,622	4,065
Cable & Wireless	10,571	6,013	0	2,550	2,687	6,333
Compass RI Savings	2,444	1,606	0	1,087	1,224	3,505
DSG	3,907	181	0	1,073	1,015	3,975
Exel	10,092	6,156	442 ^a	6,127	6,530	2,637
Forbo	239	142	0	157	194	2,171
Glaxo Wellcome COMP	0	0	150 ^a	0	0	na
GSK SmithKline Beecham	218	205	248 ^a	148	133	4,776
Halcrow	8,722	1,346	0	1,483	2,390	5,199
IBM	79,100	4,100	0	11,273	11,402	7,338
InterContinental Hotels	1,381	738	27 ^b	194	258	9,496
Invensys	400	13	0	179	179	2,307
ITV	3,000	1,962	0	817	928	5,687
Johnson & Johnson	2,420	2,419	0	1,821	1,679	2,765
Johnson Matthey	1,065	1,985	0	146	149	20,678
Kingfisher	1,659	1,774	0	3,470	3,343	1,008
Lafarge	652	627	0	531	774	1,960
Lloyds Register	1,464	1,357	0	415	664	5,229
Mitchells & Butlers	973	720	0	578	598	2,879
Mitchells & Butlers Exec	347	156	0	23	23	21,870
Next	1,850	2,204	0	2,046	2,080	1,965
Norcros	184	94	0	118	111	2,428
Northern Rock	4,389	3,170	0	3,680	3,720	2,043
Nuffield Health	4,120	303	0	2,419	1,664	2,167
Otis	1,363	1,519	624 ^a	1,080	1,111	3,200
Parker Hannifin	1,366	1,128	0	526	804	3,750
Pearson	8,451	4,212	0	2,762	3,629	3,963
Pensions Trust	4,300	3,200	0	2,092	4,071	2,434
Reckitt Benckiser	8,004	1,828	0	1,366	1,426	7,043
Remploy	907	1,058	213 ^a	755	796	2,809
Renishaw	2,065	734	0	1,338	1,297	2,124
Royal Mail	175	264	0	691	627	666
RWE Power	200	200 ^a	100	232	266	2,008
Shepherd Group	1,257	834	0	594	666	3,319
Shipbuilding Industries	4,039	1,366	1,131 ^a	1,418	1,877	3,967
Somerfield	1,916	1,494	0	2,445	2,104	1,499

Table 2: Annual contributions paid into DC occupational pension schemes

Scheme	Employer's contribution (£'000s)	Employees' contribution including AVCs (£'000s)	Other (£'000s)	Number of active members		Average annual contribution (£s)
				Start	End	
Thomas Cook	529	511	0	246	315	3,708
Thorn	0	89	127 ^c	119	5	3,484
UK Paper Employees	871	584	0	65	0	22,384
Vetco Gray Hughes	2,567	1,360	0	763	877	4,789
Vodafone	7,872	3,705	0	3,871	4,512	2,762
Xerox	2,168	469	0	1,047	1,080	2,480
Yorkshire Building Society	1,649	890	0	1,156	1,238	2,121
Zurich Financial Services	6,437	1,048	0	648	1,373	7,407

(a) age-related rebates from contracting out on a protected rights basis
(b) employers' contributions retained
(c) transfer from a DB surplus

scheme's members but the analysis provides a base for gauging the value of the 'pension pot' of the average active/deferred member in any particular scheme. The total net asset value of the 43 DC pension funds is £2,483,823,000 and the total number of active and deferred members is 180,431 indicating a mean net fund per member of £13,766. The median net fund among all 43 schemes is a net fund per member of £10,260.

Trend away from trust-based DC schemes

In October 2008 the NAPF reported in its Annual Survey that the year had seen the continuation of the trend away from trust-based DC occupational schemes and the growing importance of contract-based DC schemes, in the form of either group personal pension (GPP) arrangements or designated stakeholder schemes. The NAPF Survey found that DC occupational schemes accounted for 54 per cent of responses, down from 56 per cent in 2007, but compared to 89 per cent of DC provision in the 2005 NAPF Annual Survey. The Survey noted that the use of GPP arrangements had increased from 16 per cent in 2007 to 21 per cent but that this increase appeared to have been at the expense of designated stakeholder schemes, which had fallen from 29 per cent to 24 per cent over the same period. The Survey also reported that in 2008 one per cent of respondents were using a Group SIPP.

Among the DC occupational schemes figuring in the IDS research the great majority are open schemes. Among those that have closed, however, are the following schemes.

The DC section of the Aggregate Industries Pension Plan was closed on 31 March 2006 and was replaced by a contract-based stakeholder scheme from 1 April 2006 with all active

Table 3: Breakdown of contributions by source

Source	Amount	%
Employer contributions	£301,577,000	73.306%
Employee contributions	£106,755,000	25.950%
Age-related rebates	£2,908,000	0.707%
Credit from DB scheme	£154,000	0.037%
All sources	£411,394,000	100%

members of the former DC section being invited to participate.

The HS Marston Aerospace Ltd Plan is divided into two Plans in the one trust. The DB section was closed to new members on 1 October 1999 and the DC section was closed on 1 March 2006. This latter section had 86 deferred pensioners as at 31 December 2007.

The Glaxo Welcome COMP Scheme had been established on 1 July 1988 when contracted out money purchase (COMP) schemes went live. There were, however, no active members contributing to the scheme as at 31 December 2006 or 31 December 2007 but there remained at those dates respectively 11,549 and 11,202 deferred members.

The UK Paper Employees Pension Scheme had two DB sections and a DC section but both DB schemes were closed to future accruals and from 6 April 2007, only the DC section was receiving contributions. Final contributions to the DC section were paid in March 2008 and the whole Scheme commenced winding up from 1 April 2008.

Group personal pension arrangements are providing a serious challenge to DC occupational pension schemes but this may be a more temporary challenge prior to the advent of the measures contained in the Pensions Act 2008 in relation to auto-enrolment into either a qualifying scheme or into the personal accounts pension scheme.

Table 4: Value of DC pension fund and average fund size among actives and deferreds			
Scheme	Value of net DC fund at year end (£'000s)	Total of actives and deferreds at year end	Average value of DC net fund per member (£s)
Aggregate Industries	7,012	674	10,404
Alstom	7,299	1,277	5,716
Associated British Foods	32,482	2,696	12,048
Associated British Ports	10,530	826	12,748
Aviva	265,659	32,031	8,294
BASF	144,107	2,519	57,208
BOC AVC	12,646	876	14,436
BOC RS section	24,631	2,569	9,588
British Alcan	167	46	3,630
BT Retirement Plan	208,917	20,363	10,260
Cable & Wireless	134,822	9,488	14,210
Compass RI Savings	11,034	1,470	7,506
DSG	11,037	1,457	7,575
Exel	284,786	22,357	12,738
Forbo	1,433	230	6,230
Glaxo Wellcome COMP	150,838	11,202	13,465
GSK SmithKline Beecham	114,688	5,045	22,733
HS Marston Aerospace	1,098	86	12,767
IBM	632,400	18,392	34,385
InterContinental Hotels	5,115	342	14,956
Invensys	400	202	1,980
ITV	32,589	1,705	19,114
Johnson Matthey	10,705	233	45,944
Kingfisher	9,371	4,350	2,154
Lafarge	6,694	1,423	4,704
Lloyds Register	6,160	680	9,059
Mitchells & Butlers	4,992	743	6,719
Mitchells & Butlers Exec	1,610	29	55,517
Norcros	5,511	288	19,135
Northern Rock	31,097	4,924	6,315
Otis	30,320	2,519	12,037
Parker Hannifin	3,417	818	3,847
Pearson	98,764	7,833	12,609
Pensions Trust	52,300	6,081	8,601
Reckitt Benckiser	37,827	1,749	21,628
Remploy	4,822	1,349	3,574
Royal Mail	2,659	832	3,196
Thorn	2,410	139	17,338
Shipbuilding Industry	24,712	2,574	9,601
UK Paper Employees	8,165	381	21,430
Vetco Gray Hughes	14,442	1,030	14,021
Vodafone	23,127	5,001	4,624
Yorkshire Building Society	11,297	1,602	7,052

Membership figure is the number of actives and deferreds only.

Encouraging saving for retirement

Helen Sudell, Editor of IDS Pensions, looks at the latest DWP report on the implications of personal accounts on saving for retirement.

In February the Department for Work and Pensions published a report, *Saving for Retirement: Implications of pensions reforms on financial incentives to save for retirement*, which looked at how personal accounts would impact on saving for retirement. Its main finding was that, given reasonable assumptions about the future, most people can expect to be better off in retirement by saving.

The report looked at the impact on those making savings into a defined contribution pension after 2012, and therefore benefiting from the employer contributions required by the personal accounts legislation. It found that over 95 per cent of savers could expect returns which, after taking inflation into account, would be greater than the cost of their contributions, with over 70 per cent seeing their contributions double. There is, however, a minority for whom this is not the case.

As the NAPF points out, if personal accounts and auto-enrolment are to succeed the Government will have to work hard to rebuild confidence in the private pension system. Research carried out by the NAPF in September 2008 found that 53

per cent of employees were not confident they understood how the UK's pension system worked, and this rose to 70 per cent where employees did not have access to a workplace pension. Education will, therefore, be essential.

But it will also be important to identify those individuals who will not benefit by contributing to personal accounts and then to provide them with the appropriate advice, thus ensuring that public confidence in pensions is not further undermined. These will mainly be individuals on low incomes who, by contributing to personal accounts, would merely be replacing means-tested benefits and would be no better off.

One option, advocated by Helen Dowsey, a principal at Aon Consulting, would be for the Government to exempt pension savings from means testing. She argues that if pension savings are exempt from means testing 'this will prevent many low earners (the principal target market of personal accounts) from using this as an excuse not to divert scarce resources towards pension savings'. But how would this actually work in practice?

Pension scheme benchmarks 2009

Subscribers to the IDS Pensions Service will have recently received *Pension scheme benchmarks 2009*. This is our annual review of the contribution rates and benefits structures of the pension schemes sponsored by a wide cross-section of named employers. The publication analyses 87 schemes or sections of schemes which are offered by 44 organisations. These include both open and closed schemes and provide benefits ranging from those offered on a final salary basis to employer-sponsored stakeholder schemes. This publication, therefore, is invaluable to any organisation wishing to establish whether the pension arrangements it offers compare favourably with those offered by other employers.

Also available

IDS Pensions Handbooks covering:

- Pension scheme design (*published May 2008*)
- Pensions tax and regulation (*published July 2008*)
- Pension trustees and administration (*published October 2008*).

To order additional copies of *Pension scheme benchmarks 2009* or the IDS Pensions Handbooks call Customer Services on 0845 600 9355 or visit www.incomesdata.co.uk

Table 5: Normal contributions to DC self-administered occupational pension schemes

Calendar year	Employer	Employee	Combined	Ratio employer to employee
2004	£491m	£219m	£710m	2.24:1
2005	£829m	£375m	£1,204m	2.21:1
2006	£821m	£229m	£1,050m	3.59:1
2007	£1,032m	£397m	£1,429m	2.60:1
Qtr 1 2008	£332m	£100m	£432m	3.32:1
Qtr 2 2008	£250m	£107m	£357m	2.34:1
Qtr 3 2008	*£276m	*£92m	*£368m	3.00:1

* figures may be revised
Source: National Statistics

Table 5 shows the total contributions paid by employers and employees to self-administered DC occupational pension schemes since 2004, ie when the ONS first distinguished between contributions to self-administered DB, DC and hybrid schemes. The figures show the following features:

- the overall trend is for total contributions to increase each year in absolute terms but contributions in 2006 were lower than in 2005 – a feature that is also noticeable in table 1 on page 6 relating to the IDS DC survey
- over the seven lines of data the average ratio of employer to employee contributions indicates that the employers with self-administered DC occupational pension schemes are contributing

on average £2.76 for every £1 contributed by the active members.

It should be noted that for these purposes ‘self-administered pension schemes’ means private sector occupational pension schemes which have units invested in one or more managed schemes or unit trusts. The sample, therefore, excludes public sector DC schemes, any fully insured DC schemes and all contract-based pension schemes.

Further information

For more information on the contribution rules and design in defined contribution schemes see the IDS Pensions Handbooks: *Pension scheme design 2008* at 2.44 to 2.53 and *Pensions tax and regulation 2008* at 1.38 to 1.39.

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