



Punter Southall
GROUP

DC pensions in the UK workplace

Corporate DC survey results

March 2010



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Our survey considers all aspects of defined contribution pensions in the UK and influencing issues: from the current and future impact of economic conditions to the far-reaching effects of planned pension reforms.

The statistics included within our survey reflect the views of UK plc, while our commentary seeks to highlight and analyse what we see as their hopes and concerns for the future of workplace retirement provision.

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10 key findings

94% of companies use a defined contribution arrangement as their primary pension scheme offered to new employees

92% of respondents believe that the responsibility for retirement saving rests primarily with the employee

92% of respondents believe companies should undertake regular scheme reviews

89% of respondents believe that pension benefits are appreciated, although only 7% of companies have undertaken a survey to assess this

70% of schemes have at least 70% of members in the default investment option

60% of companies do not operate a pension committee or forum

60% of respondents do not believe that employer duties and NEST will have a positive impact on retirement saving in the UK

55% of companies use salary sacrifice for pension contributions

14% of respondents think a change in government will have a positive impact on pensions

10% of companies have reduced or suspended pension contributions as a result of economic conditions

Punter Southall Group – DC overview

“The combination of businesses in our Group is unusual but is not accidental. We have always aimed to be able to provide complete solutions to our clients. The unique range of skills within our Group enables us to do so”

Jonathan Punter, Chief Executive, Punter Southall Group

Punter Southall was established in 1988 to provide a fresh perspective within a relatively static pension market. From an original workforce of just nine, Punter Southall has now grown to a group of companies that employs over 700 people.

Background to Corporate DC

1988 also saw the introduction of personal pension plans, replacing retirement annuity contracts and offering a greater degree of choice and flexibility to investors. It also heralded a major shift to individual pension provision in the UK.

The subsequent rapid development of the regulated pension sector over the following two decades triggered a dramatic change in the pension landscape. Many commentators remark that a universal change from final salary schemes to defined contribution (DC) provision is moving ever closer. We believe that this shift has been underway for much longer – perhaps as far back as 1967, which saw the peak of private sector occupational pension scheme membership in the UK.¹

The modern day reality is that for the vast majority of workers in the private sector, the move to DC pensions has already occurred, and it is these DC savings that will fund most, if not all, of these individuals’ private pension income.

Never wishing to stand still, Punter Southall has continually developed and strengthened its proposition and now has 11 offices in the United Kingdom. Recognising the importance of DC pensions, we have a specialist Corporate DC team whose members draw on extensive experience, knowledge and creative thinking to ensure that we are able to design and implement innovative pension solutions.

Given the challenges presented by the current and future social, economic and political climates, we believe that understanding the opinions and requirements of employers is essential to develop the future provision of pension and retirement saving in the UK.

We would be delighted to meet with you personally to discuss the issues raised by our survey, or the provision of workplace retirement savings in general.

¹ Office for National Statistics – The Occupational Pension Schemes Survey 2006



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Survey contributors

Key facts

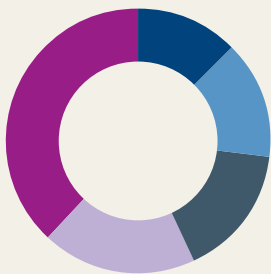
- 57% of respondents represent companies employing 500 or more people
- 24 of the FTSE 100 companies are represented within our survey

Our annual Corporate DC survey is again one of the largest undertaken in this field. We have received responses from representatives of a diverse range of over 330 companies, from the public sector and charities to technology and telecommunications firms.

The respondents include some of the UK's largest employers, including 24 of the FTSE 100 companies.

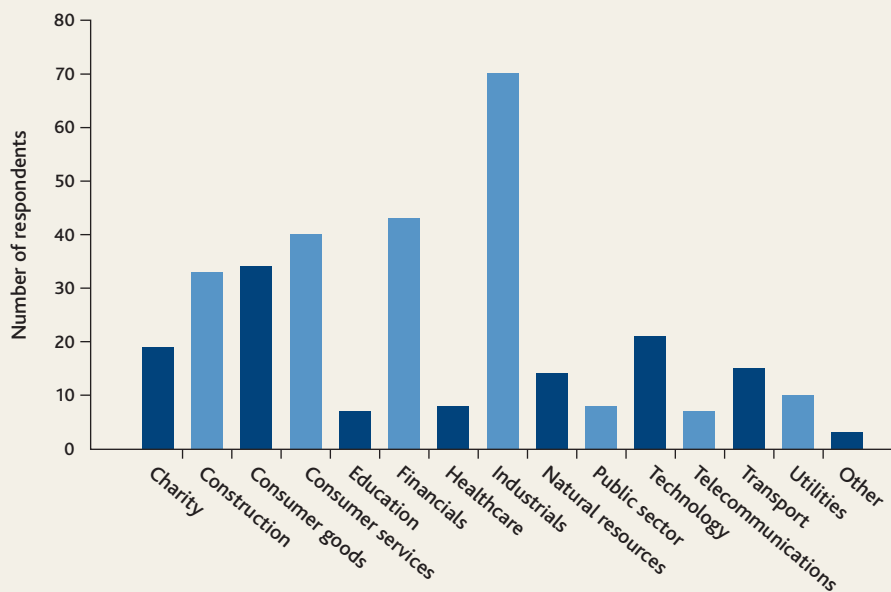
The individuals completing our survey were split primarily between pension or benefits managers and representatives from human resources or finance departments. With many respondents at director level, we believe our survey conveys an authoritative range of opinions and perspectives.

Company size by number of employees

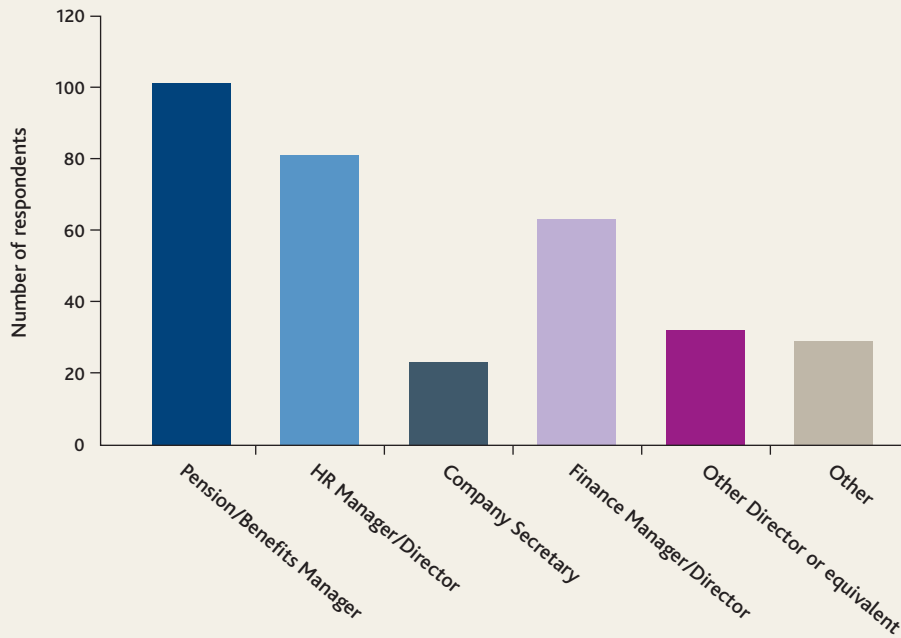


- Fewer than 50
- 50 – 249
- 250 – 499
- 500 – 1,499
- 1,500 or more

Company sector



Role of respondent



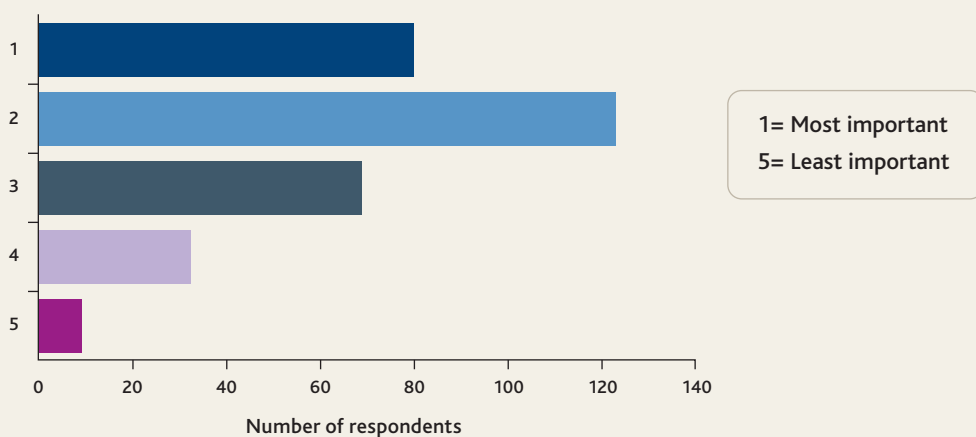
Importance of your company's pension scheme

Importance of your company's pension scheme

Key facts

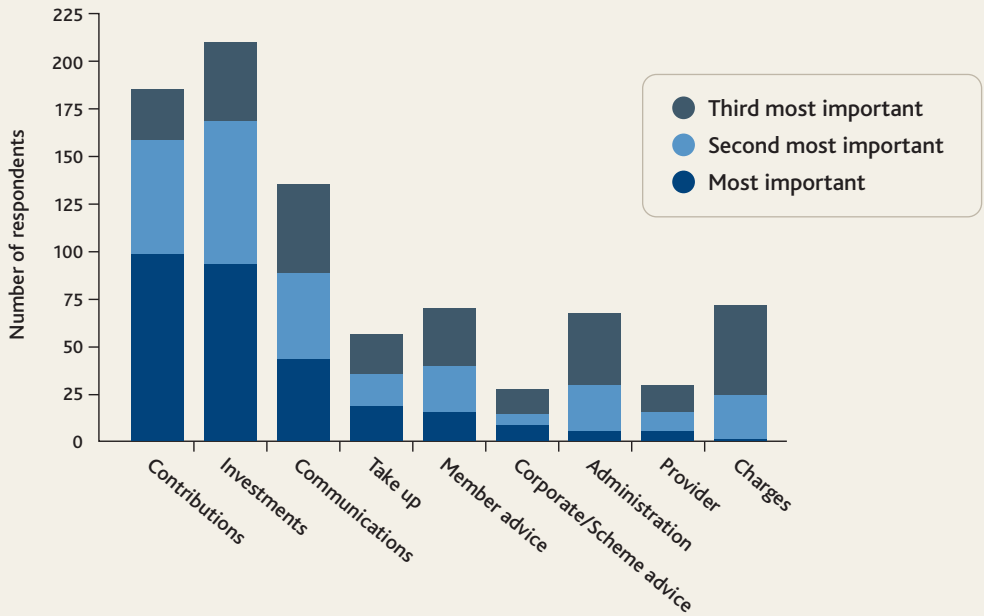
- 63% of respondents feel that pensions are an important part of an employee's overall benefits package
- Contributions, investments and communications are seen as the most important components of a pension scheme

How important are pensions as a company benefit?



26% of respondents believe that pensions are the most important benefit, while 37% view them as the second most important benefit.

What are the most important aspects of a pension scheme?



Our view

Our survey suggests that workplace pensions remain highly relevant within the UK. The majority of respondents rate pensions as one of the two most important benefits provided to employees.

However, as we will discuss throughout this report, social, economic and political pressures are influencing corporate pension provision and are giving rise to considerable concern among UK employers.

Despite these concerns, this survey supports the thinking that employers still value pension schemes as a recruitment and retention tool, and as a vital part of their benefits package.

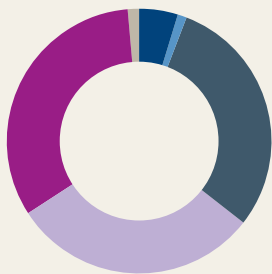
The overwhelming importance placed on contributions, investment and communication reinforces the need for thorough and effective governance of DC schemes, to ensure that the interests of both employers and employees are protected.

Scheme design

Key facts

- 5% of companies offer a final salary scheme to new employees
- 94% of companies have a DC scheme as their main scheme open to new employees
- 53% of companies offer immediate entry to their scheme
- 55% of companies offer salary sacrifice

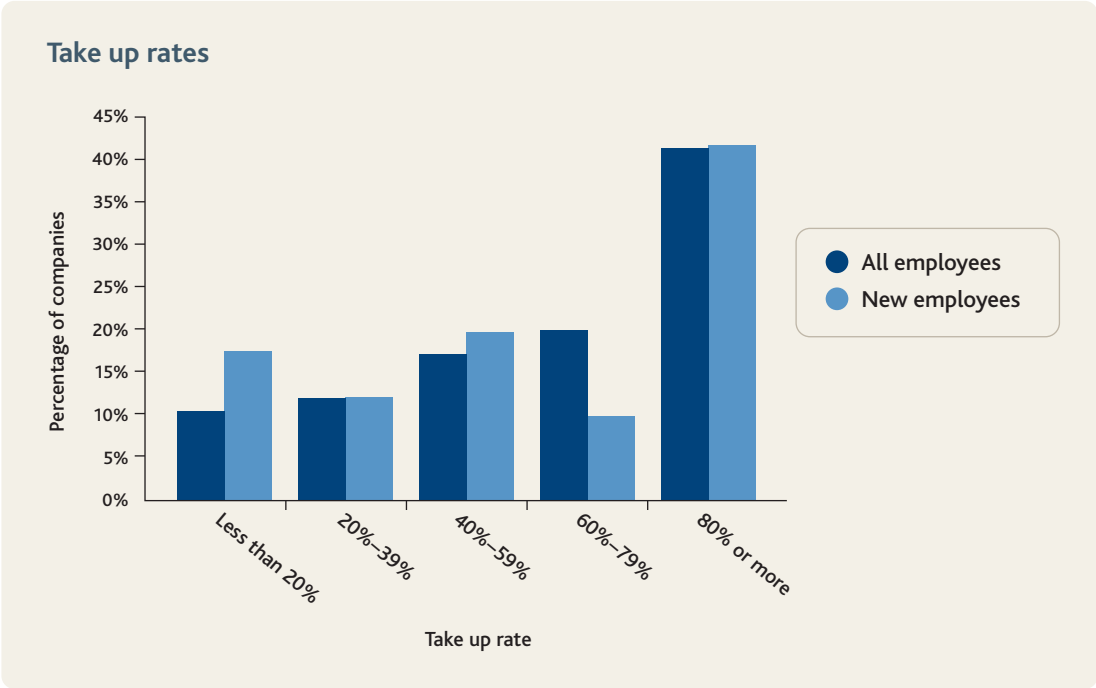
What is the primary scheme currently offered to new employees?



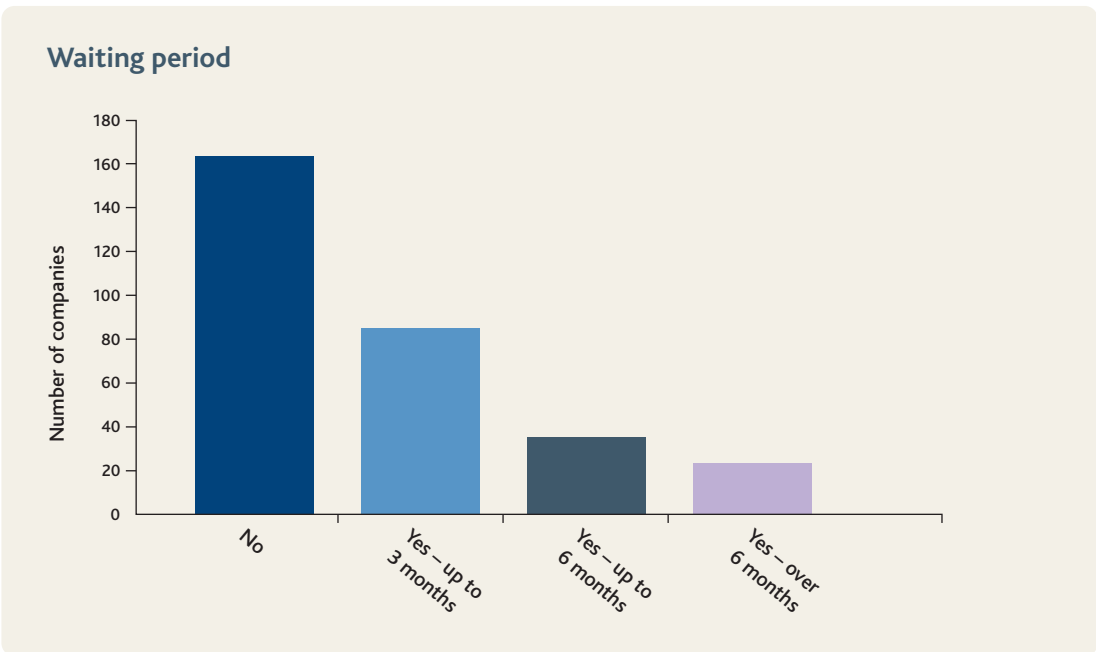
- Traditional final salary
- Career average scheme (CARE)
- Occupational money purchase
- Group stakeholder pension
- Group personal pension
- Group self invested personal pension

While 59% of companies still operate final salary pension schemes, only 5% of companies offer membership to new employees.

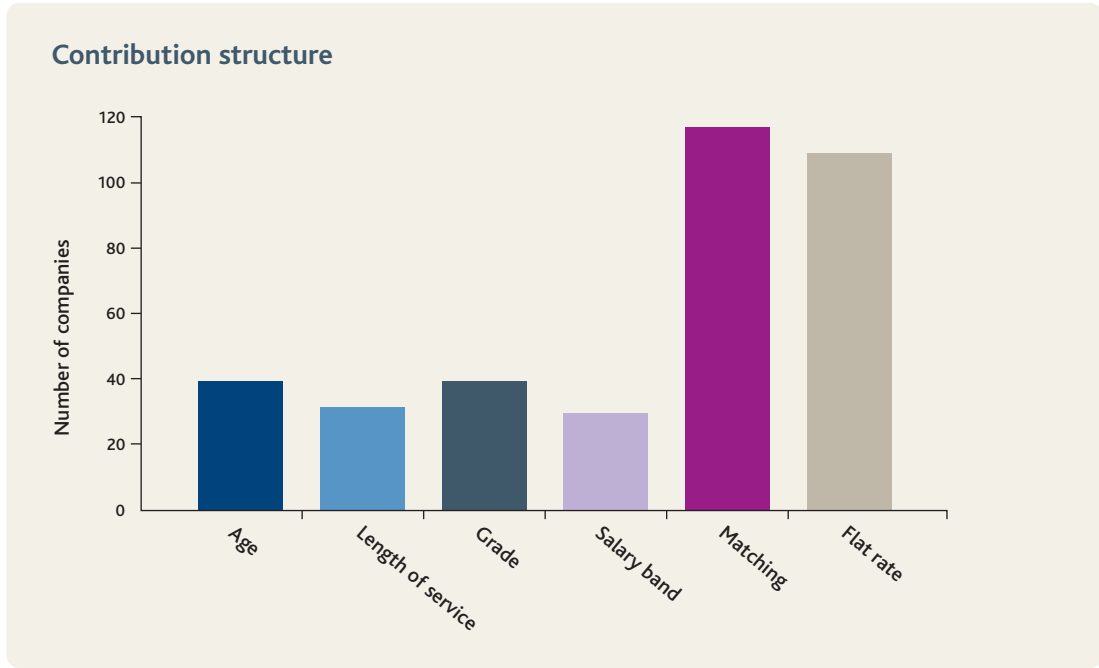
94% of companies have a defined contribution scheme as the main scheme open to new entrants, of which 65% use contract-based arrangements.



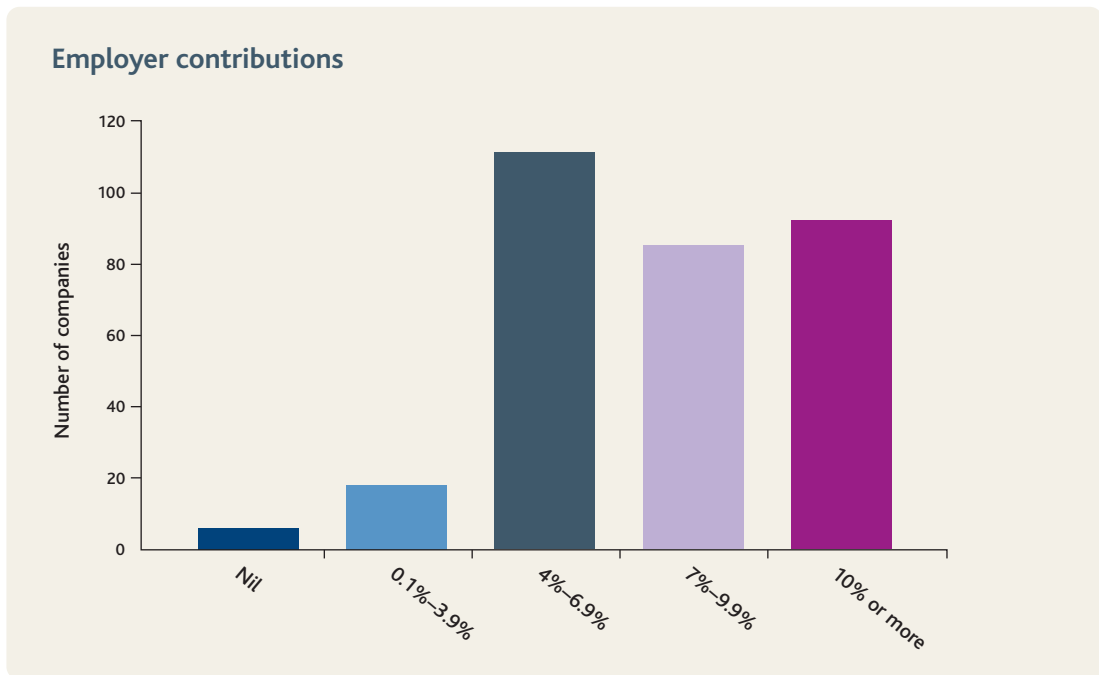
Over 40% of companies report take up as being 80% or more, either of the total workforce or among new employees.



More than half of companies offer immediate entry to their main pension scheme, with a further 28% offering membership within three months of joining the company. However, 19% of companies have waiting periods of over three months – an area that will need to be reviewed ahead of the introduction of employer duties in 2012.

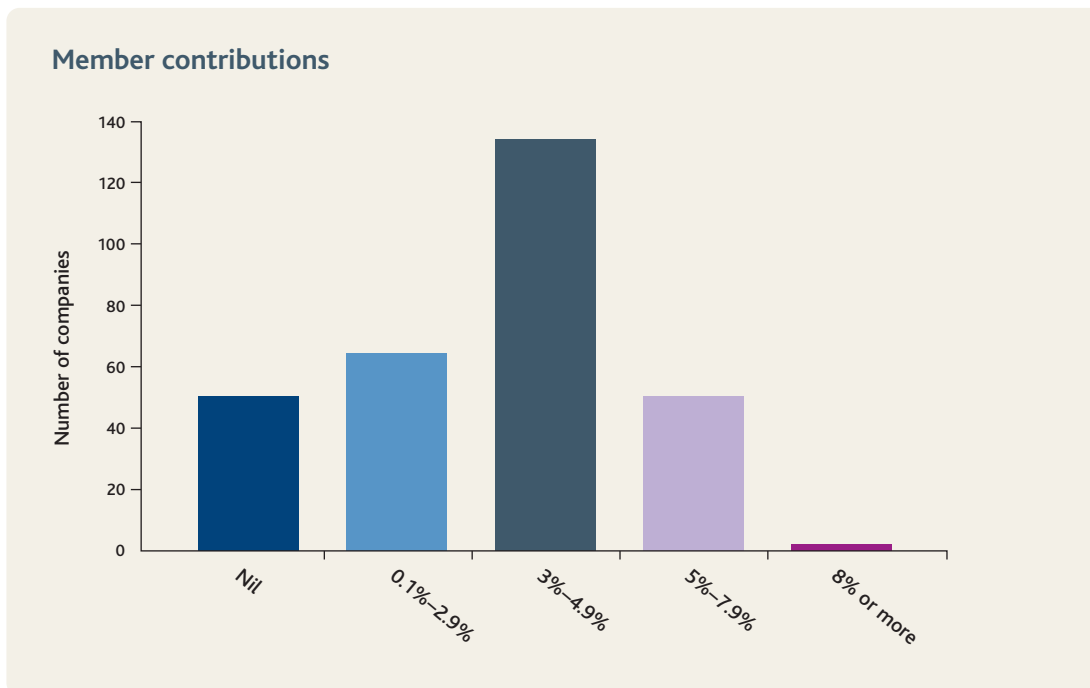


Flat rate and matching contribution structures remain the most popular – increasingly so since our 2009 survey.

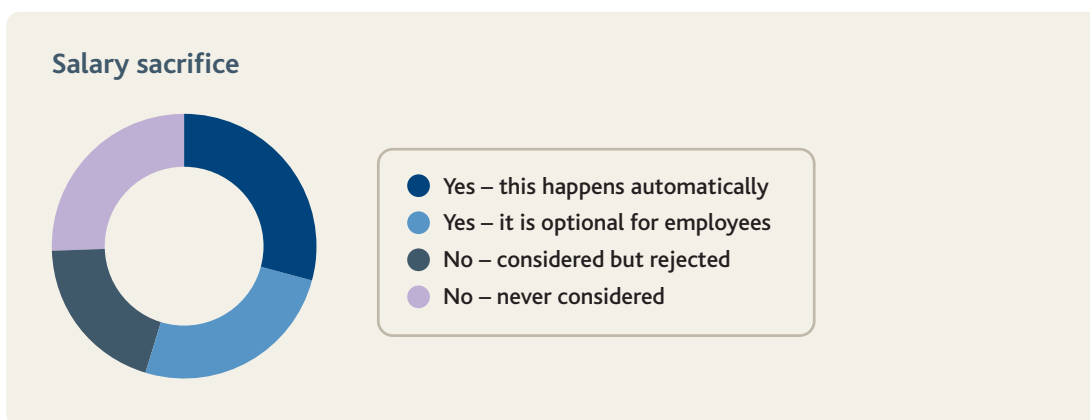


90% of companies contribute to pension arrangements for all staff. Of those that do, 94% offer contributions of 4% or more – a rate exceeding the requirements of employer duties.

In addition, over one third of companies offer a higher contribution structure for senior executives.



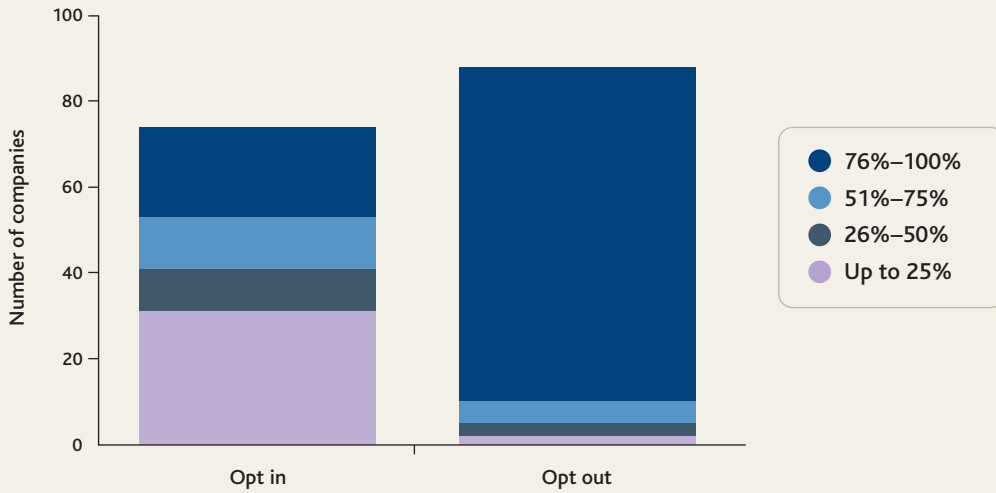
17% of schemes do not require an employee contribution, while of those that do, almost 80% require contributions of less than 5% of salary.



55% of companies offer salary sacrifice, either automatically or as an option for employees. This compares with 43% in the 2009 survey.

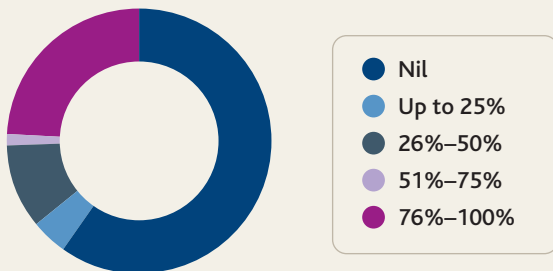
Surprisingly, 25% of respondents have never considered salary sacrifice, despite the savings it can provide. This compares with 28% in the 2009 survey.

Impact of salary sacrifice implementation method on take up



Take up of salary sacrifice is considerably higher when employees are automatically included within the arrangement. Almost 90% of companies operating salary sacrifice in this way have reported take up of over 75%. If an 'opt in' approach is used, only 28% of companies report take up of 75% or more.

What proportion of company National Insurance savings are redirected to members?



60% of companies do not explicitly redirect any of their National Insurance savings to employees' pension funds, although of those that do, 60% redirect more than three quarters of company savings.

Our view

The move away from final salary schemes is now almost complete, with only 5% of companies surveyed continuing to offer membership to new employees. Even though final salary schemes, whether open or closed, will continue to be a strain on corporate resources for many years to come, attention must increasingly focus on DC arrangements as the predominant type of schemes for active membership.

It is apparent that there is very little appetite among firms for the middle ground of CARE arrangements or hybrid solutions. Furthermore, once employers have adopted DC, it is highly unlikely, certainly in the short to medium term, that they will want to reassume the responsibility and risks inherent in these options.

Where DC has been established, there is a clear preference for contract-based arrangements, passing further responsibility from trustees to employees. Group self invested personal pensions remain a relatively niche solution.

There are still companies that do not contribute for some or all of their employees. With the forthcoming introduction of employer duties, it is these companies, along with those with low take up rates, that will be likely to face the most significant increase in pension spend.

Among companies that do make contributions, the levels are often over and above those required under employer duties, and the bases for the structures are typically flat rate or matching. This may be due to the convenience of these structures or perhaps reflects employers' preferences for harmonised benefit structures given the various aspects of anti-discrimination legislation.

Salary sacrifice

Salary sacrifice continues to grow in popularity, perhaps unsurprisingly given the current economic conditions. However, 25% of companies have never considered it despite the potential savings.

The responses we have received support our experience that a clear distinction in the take up of salary sacrifice exists depending on whether it is offered on an opt in or opt out basis. The savings are maximised when the arrangement is introduced on an opt out basis.

Continued overleaf...

Our view (continued)

While on the surface the proportion of companies retaining all company savings appears high, many comments have suggested that the savings are either implicitly included within the contribution structures (especially when salary sacrifice was introduced as part of a contribution review), or are used to provide other benefits.

Our experience shows that if salary sacrifice is perceived to have been introduced purely as a cost saving measure for employers, it is less likely to be seen as a positive change for members and take up will suffer as a result.

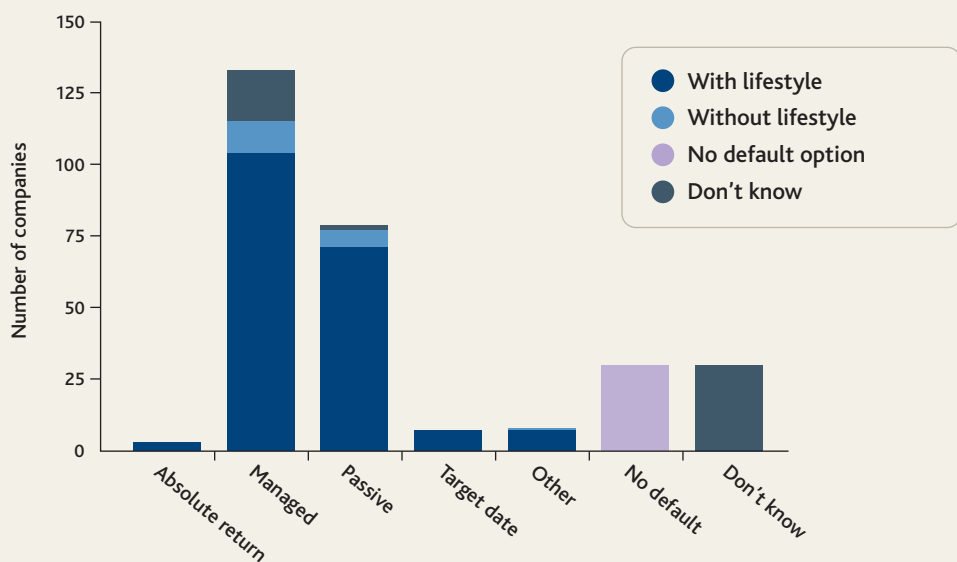
Despite the fact that salary sacrifice is primarily an issue of contract and employment law, there are concerns among employers regarding its continued availability. Given the current state of pensions in the UK, we ask the government to clarify its position on salary sacrifice and enable employers to introduce or continue arrangements with confidence that it will remain an option in the long term.

Investment

Key facts

- 78% of schemes offer a default investment option
- 70% of schemes have at least 70% of members in the default investment option
- 42% of schemes offer more than 15 funds

Default investment options and lifestyling

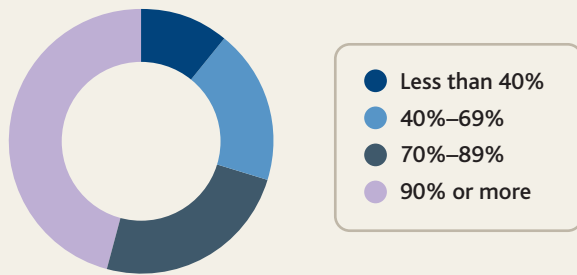


78% of schemes offer a default investment option of some description and 80% of these include lifestyling.

Managed or passive investment funds remain overwhelmingly the most popular choice for default options.

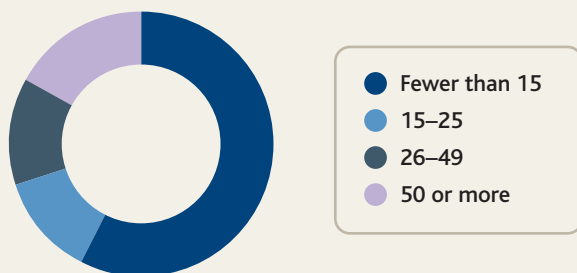
11% of schemes do not have a default investment option, with a further 11% of respondents unsure if one is offered.

Default investment option usage



70% of schemes have 70% or more of members invested in the default option. In contrast, only 11% of schemes have less than 40% of members invested in the default option.

How many funds are offered?



Almost 58% of schemes offer fewer than 15 funds, while nearly 17% offer 50 or more.

Our view

Our respondents rightly view investment as the second most important consideration for DC schemes after contribution levels. The range of investment options offered to members is crucial, as is the encouragement of informed decision-making through appropriate communication, given the substantial impact it can have on final fund values.

With current research suggesting that individuals become less able to make decisions when faced with more choice, contract-based schemes are increasingly adopting the approach of their occupational counterparts by introducing employer-selected fund ranges. However, effective governance should be in place to ensure that the selected fund range remains appropriate.

78% of schemes offer default investment options, which are used by most members. Our experience indicates that the high proportion of members using default options are often doing so without due consideration. In addition, the presence of a default option may be interpreted by some as a recommendation of suitability.

The composition of the default option is critical, yet we see managed or passive funds remaining overwhelmingly the most common constituent during the growth phase of the pension planning lifecycle.

We would question the suitability of these choices for a number of reasons; primarily the asset allocation of the underlying funds. Balanced managed funds typically invest up to 85% in equities, while the passive funds used in default options tend to track 100% equity indices. In line with their mandates, these types of funds expose investors more or less to the full extent of stock market volatility.

We recognise that lifestyle overlays present a better option than having no de-risking of investments as retirement approaches, however, the recent past has illustrated that they are a far from perfect solution, with automatic disinvestment from equity-based investments in times of extreme volatility and market lows. Lifestyling also operates under the assumption of a predetermined retirement date, which is increasingly unlikely to hold true.

Target-dated funds, popular in the US, are generating interest as a potential alternative, however, we believe that they are unsuitable for UK investors, at least in their current form. High equity exposure and the rigidity of a fixed maturity date offer no solution to the issues of unplanned early, late or gradual retirement.

Auto-enrolment is likely to dramatically increase the number of pension savers in the UK. The default investment option chosen under NEST is likely to become the de facto standard for DC pension provision in the UK, or certainly influence it to a large degree.

Continued overleaf...

Our view (continued)

The DC market in the UK is increasingly focused on minimising charges, ignoring the key objective of investment – maximising outcome within chosen risk parameters. We believe there is a need for a move away from the culture of 'lowest is best' with charges instead being assessed according to the overall value of the solution.

In contrast, defined benefit scheme trustees spend considerable time, energy and resources considering ongoing investment strategies for their schemes. This level of attention is not paid to DC arrangements, and we believe this must change.

For example, the emergence of benchmark-return funds offers a viable alternative to traditional default options with near-static asset allocations. Their considerably wider scope to diversify and rotate assets enables these funds to react to changing market and economic conditions. Successful funds within this group can demonstrate real returns while substantially and consistently reducing volatility. This focus on outcome needs to be embraced by the DC world, as it is by defined benefit schemes.

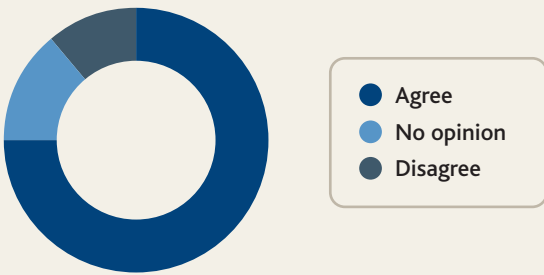
The innovation of investment options in the UK may be stifled by the lack of a 'safe harbour' principle which, in the US, exempts trustees, employers and governance committees from class actions if it can be demonstrated that they were acting in the best interests of members. The introduction of a similar concept in the UK could precipitate the use of more imaginative and appropriate investment options.

Education, engagement and delivery

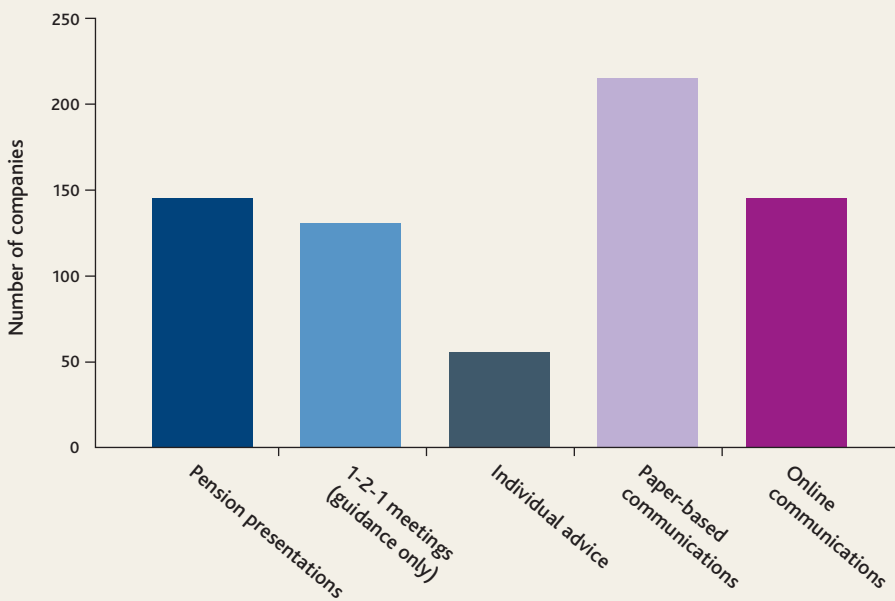
Key facts

- 75% of respondents believe that employers have a responsibility towards their employees' financial education
- 89% of respondents believe that benefits are appreciated, although only 7% of companies have undertaken a survey to assess this
- 48% of companies do not re-promote the scheme to non joiners
- 62% of schemes are branded

Employers have a responsibility towards employees' financial education

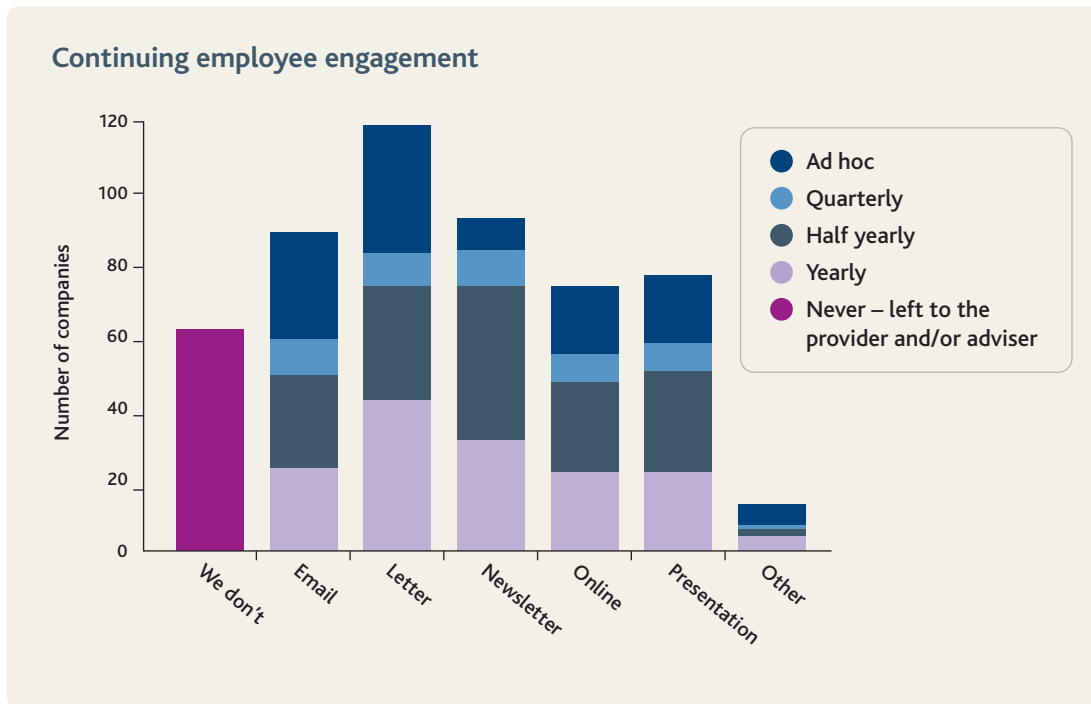


New joiner communications



The predominant communication method continues to be paper-based, with 77% of companies using this medium to offer pension membership to new employees. However, online communications, group presentations and one-to-one guidance meetings have all increased compared with last year’s results, suggesting an increased focus on member education.

Despite these improvements, 20% of respondents feel that the level of communication provided is insufficient for employees.



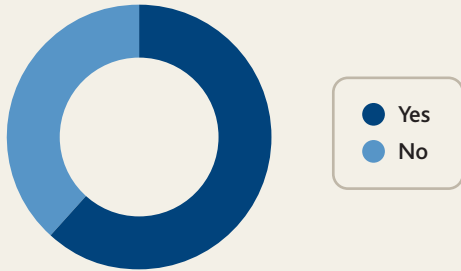
22% of companies leave all post-joining communication to the provider or adviser. The vast majority of companies that do undertake further communication do so on a yearly, half yearly or ad hoc basis.

Letters are the most popular format for communication, with a fairly even split between emails, newsletters, employee presentations and online updates.



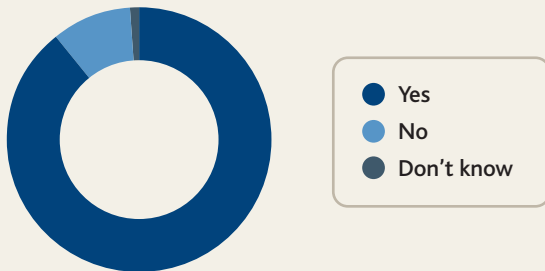
48% of companies do nothing to re-promote the pension scheme to employees who have not previously joined. This compares favourably with the results of our 2009 survey, which showed that 57% of employers did not re-promote their scheme.

Is the scheme branded in line with your corporate identity?

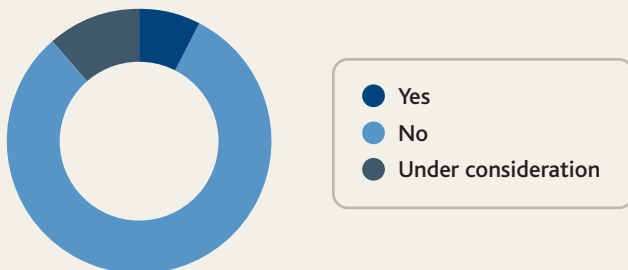


38% of companies do not brand their pension scheme, a similar proportion to 2009.

Are benefits appreciated?



Has an employee survey been undertaken?



89% of companies believe that benefits are appreciated, however, just 7% have conducted a formal assessment of the impact of their scheme on recruitment and retention.

Our view

Our survey shows that companies believe communications are important and the level of communications provided to employees has improved over the last year. We believe that this was driven in part by occupational pension scheme closures and the increasing sophistication of the associated communications. The increase in popularity of salary sacrifice will have also provided the opportunity to engage further with employees.

Education helps employees understand the value of their pension scheme. However, while communication is undertaken by many companies, well over one third do not brand their schemes with their corporate identities and over 20% of employers don't undertake any communications after employees join.

While employers believe that employees value the benefits offered to them, most have not sought to establish if this is the case by specifically asking employees for their feedback.

A company's pension scheme is often a costly benefit. At a time when DC member confidence will have been affected by highly volatile investment performance, employee education is crucial to ensure that the benefits of membership are appreciated and that the company achieves a return on its pension spend. If there is no communication from employers, there is a risk that during difficult investment periods, employees will view the scheme negatively, despite the contributions paid.

Branding and ongoing communication are simple ways for a company to improve the perception of a pension scheme, while employee surveys can help gauge the true value to the company and highlight areas for development.

Change ahead

With the introduction of employer duties in 2012, auto-enrolment will become a requirement as the government seeks to use inertia in a positive manner to boost pension saving. This move to auto-enrolment will bring different communication requirements, with a change from the need for employees to understand the offer of membership to understanding the implications of remaining in or opting out of a scheme.

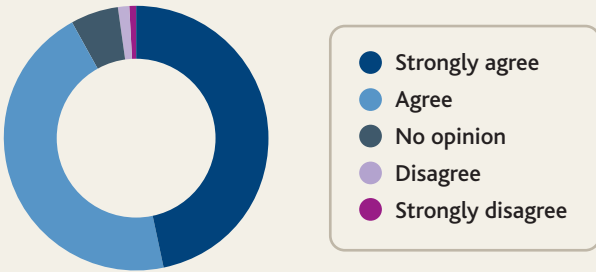
We believe that communication will increasingly be a key differentiator for employers and schemes. Companies who see themselves as committed employers will be those that adapt and improve their communications now, and attempt to improve engagement and take up before they are required to do so under employer duties.

Governance

Key facts

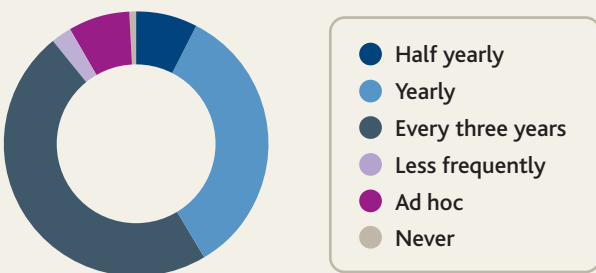
- 92% of companies believe they should undertake regular scheme reviews
- 53% of companies have undertaken a scheme review within the last year
- 40% of companies operate a pension committee or forum

Should an employer undertake regular pension scheme reviews?



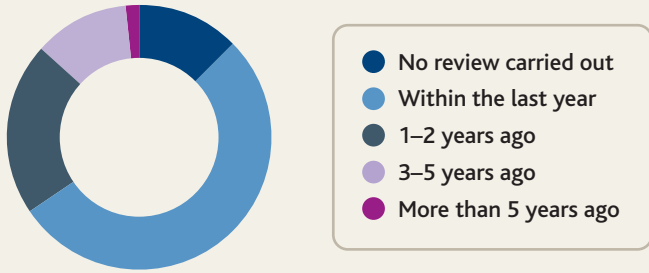
92% of respondents believe that employers have a responsibility to undertake regular pension scheme reviews. Only 2% disagree with this.

How often do you think this process should be undertaken?



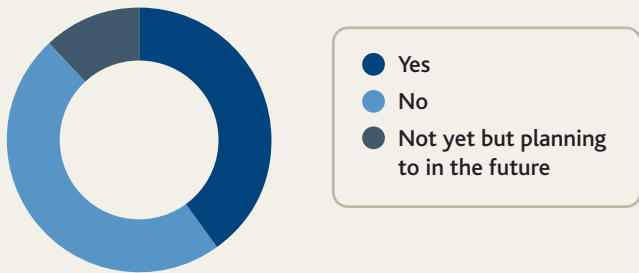
Nearly half of respondents think that scheme reviews should be undertaken every three years, with a further 34% believing they should be undertaken annually.

When was a review last undertaken?



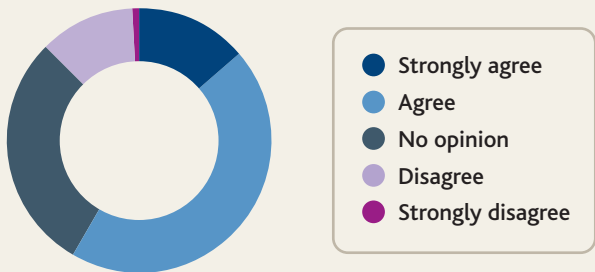
53% of respondents have undertaken a review within the last year, with 74% having undertaken a review within the last two years.

Is a pension committee in place?



40% of respondents have established a committee or forum to undertake pension scheme reviews, with a further 12% planning to do so. Last year only 34% had established a pension committee or forum.

Do you feel it is important to involve employees in the review process?



59% of respondents feel it is important to involve employees in the review process.

When did a scheme review last result in a change to the fund range?



When did a scheme review last result in a change to the default investment option?



63% of respondents have seen a scheme review result in a change of the available fund range, while 44% had seen a change in the default investment option for the scheme.

Our view

DC's emergence from the shadow of final salary schemes has not been accompanied by a corresponding level of formal governance processes. The lack of mandatory requirements, especially for contract-based arrangements, has led to the inconsistent adoption of the Pension Regulator's guidance.

With 40% of companies establishing forums or committees to undertake reviews, this situation is starting to improve. We consider that the governance process should be seen as a crucial element of operating a DC pension scheme. A thorough and effective approach can help safeguard the interests of valued employees and potentially protect employers from future claims for dissatisfaction or redress.

Changes to investment options highlighted by our survey demonstrate instances of governance bodies being willing and able to make substantive alterations.

Governance can be an inclusive process, with employee representatives able to participate in decision-making, thereby building member confidence and positively impacting companies' recruitment and retention. Our respondents view investment and communication as key aspects of DC schemes and these areas are two of the Pension Regulator's governance tenets.

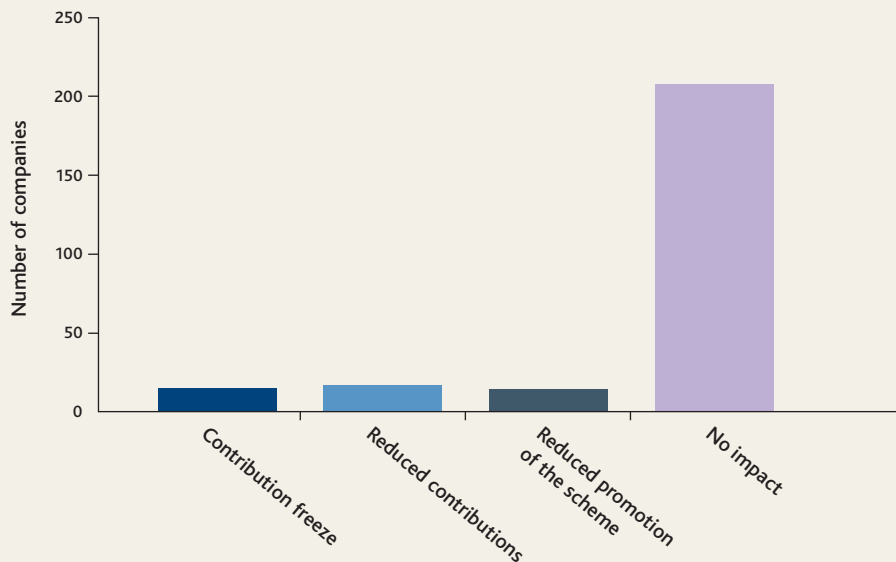
We believe that the Pensions Regulator's guidance is the right approach for companies wishing to engage in the governance process. Companies that do not share this objective may find NEST to be an appropriate solution. Beyond ensuring that they meet the enrolment and contribution requirements of employer duties, these employers will be able to leave the role of governance to the NEST Corporation, but in doing so will lose effective control of their pension.

Credit crunch

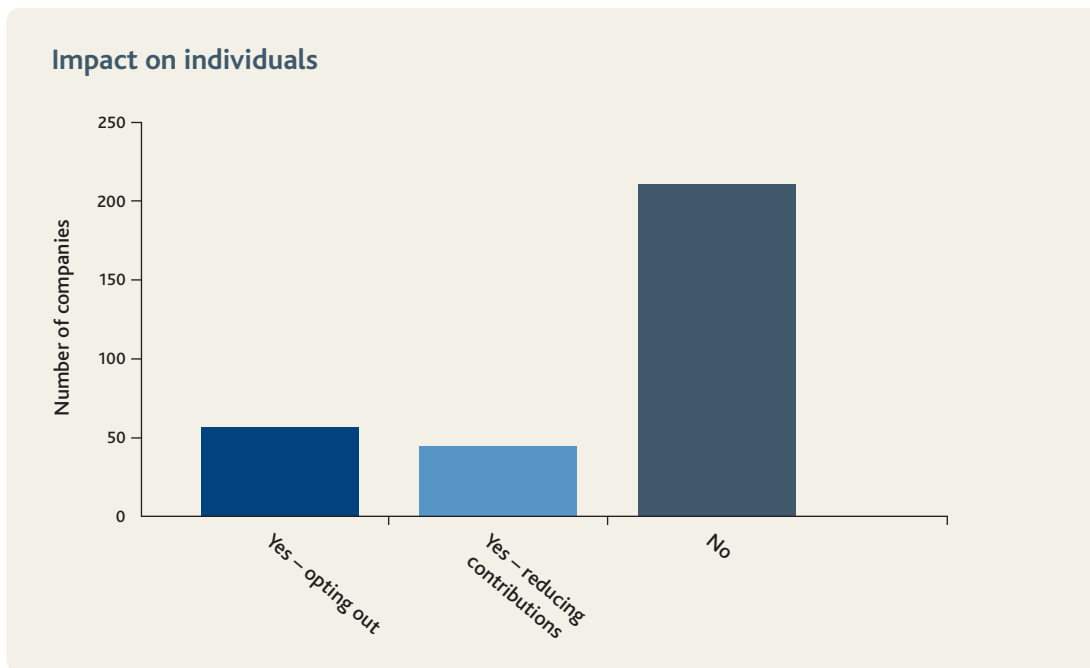
Key facts

- 84% of companies have reported no impact on pension provision
- 25% of companies have seen an increase in employees suspending or reducing contributions
- 60% of companies have communicated with employees regarding investment conditions

Impact on pension schemes – employer actions



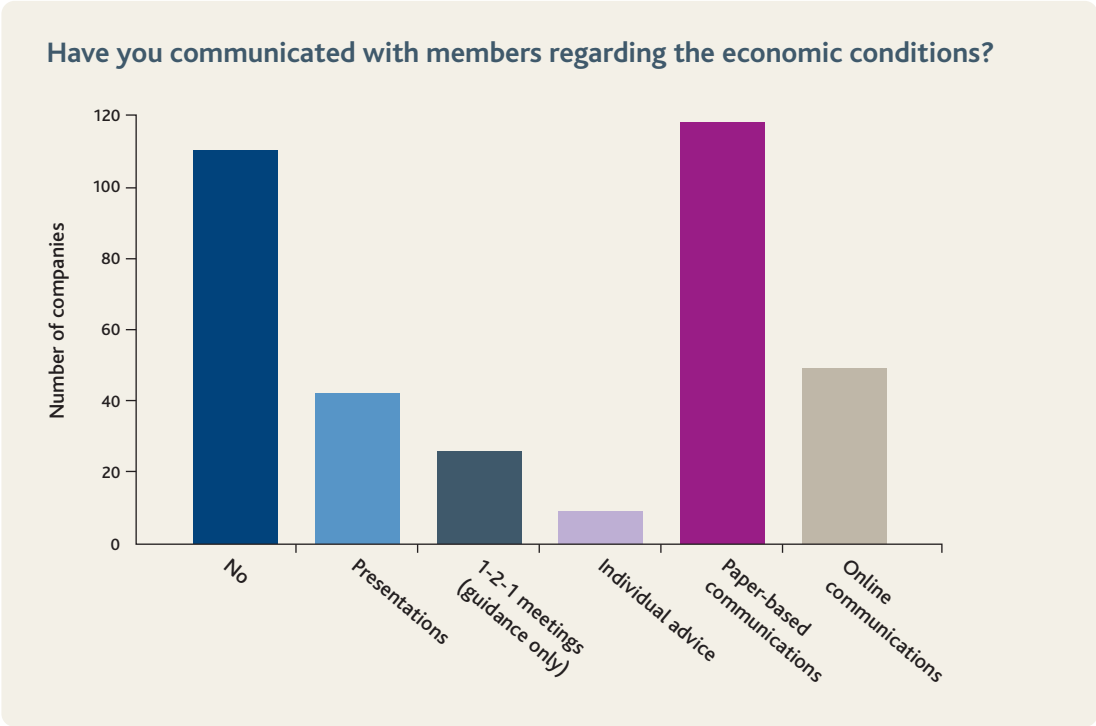
84% of companies have not reported any impact on pension provision. 10% of companies have reported either suspending or reducing contributions.



25% of companies have reported an increase in the number of employees deciding to reduce or suspend contributions.



27% of respondents have seen a noticeable increase in the number of pension-related employee queries.



60% of companies have undertaken some form of communication to employees, with over 40% issuing paper-based communication.



30% of companies have seen an increase in employees wishing to take their benefits early. This could, however, be linked to an increase in redundancies amongst older employees, or the change in the minimum retirement age from 50 to 55 coming into effect on 6 April 2010.

Survey respondents' views:

"Closure of DB scheme for future accrual."

"Proposal to close DB plan to future accrual."

"Some employees have withdrawn from the scheme."

"Raised concerns due to negative investment performance."

"Pay freeze (and contribution rates are percentages)."

Our view

The credit crunch and recession of the last two years has impacted on pensions in the UK. A number of employers have reported reducing or suspending contributions to DC schemes, while for others it has been the final nail in the coffin for their final salary schemes.

DC member confidence has been dented by highly volatile investment performance; substantial losses followed by rapid but often unmatched gains. There have been many reasons for employers or governance committees to communicate with members during these difficult times, in order to help put investment losses into context and prevent disengagement.

The risks inherent in high-equity investment have been dramatically exposed by market conditions and as a result many governance committees have, or are in the process of, reviewing default investment options.

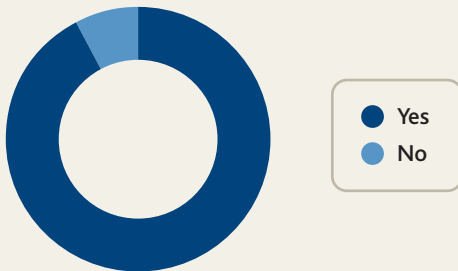
Companies generally look to exit a recession stronger than when they entered it and this principle should extend to their pension schemes. By improving investment options and communication as they enter recovery, employers can increase or rebuild member confidence and restore the reputation of their pension schemes.

Budget 2009 – tax treatment for high income individuals

Key facts

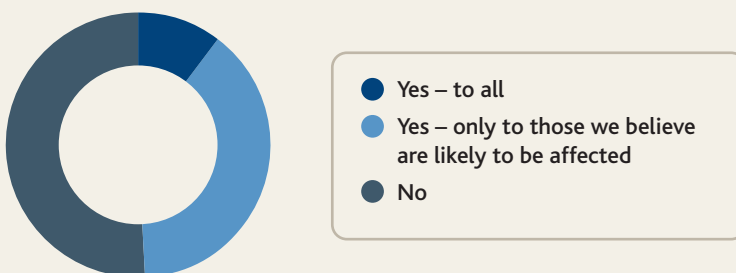
- 90% of respondents were previously aware of the changes
- 50% of companies have communicated the changes to employees
- 5% of companies have changed policy to allow for the impact on affected employees

Are you aware of the changes?



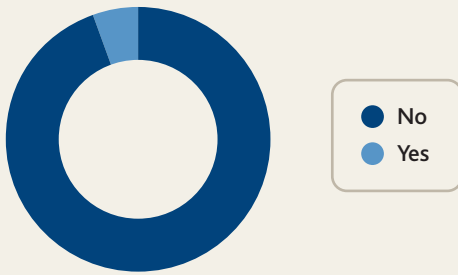
One in ten respondents were not aware of the changes affecting high income individuals announced in, and in place since, the Budget 2009.

Have you communicated these changes to employees?



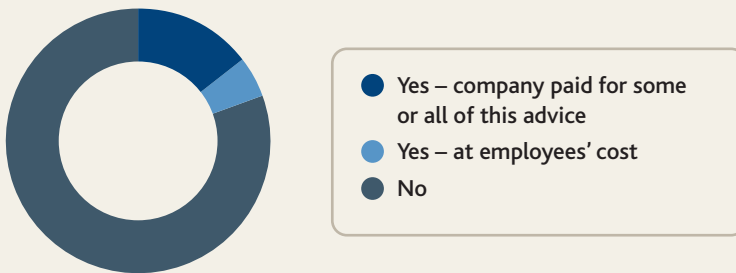
Half of respondent companies have not communicated these changes to any employees.

Has there been a change in company policy for affected individuals?



Almost 95% of companies have made no changes to their policies for these employees.

Financial advice to employees in relation to the changes?



Almost 20% of companies have made financial advice available to affected employees.

Survey respondents' views:

"It will weaken it as it will make senior managers, who are generally responsible for determining pension provision, less engaged in the pensions process."

"Further closure of DB schemes and opting out at a senior level."

"Disastrous. There will be no incentive for senior managers to participate in pensions themselves, which will make the provisions of pension a much lower boardroom priority."

Survey respondents' views:

"Removal of key decision makers from having a personal interest and involvement with employee pension schemes will push the interest of the employee benefit even further down the priority order."

"I would expect affected individuals to find other tax efficient ways of saving other than pension schemes."

Our view

Only three years after pension simplification was introduced, fundamental changes to tax relief were announced.

While some respondents commented that they were waiting for the relevant legislation and details of implementation, anti-forestalling rules mean that employees could potentially be affected immediately upon their announcement on 22 April 2009.

These key employees must be given time to consider what impact the changes will have on their pension provision both now and from April 2011. However, only 50% of companies had communicated the issues to employees and 10% of respondents were not aware of the changes.

The anti-forestalling measures continue to be amended, with further regulations being published at the end of February 2010. In addition, we understand that several key industry bodies have been strongly critical of the 2011 changes when responding to the government's consultation regarding their implementation, which closed on 3 March 2010.

The established principle that pension contributions attract tax relief at an individual's highest marginal rate has been swept away. We are concerned that the income threshold for the new rules, introduced at £150,000 and subsequently reduced to £130,000, could suffer further downward revisions or be frozen at will.

We believe that far from being a minor change to the taxation of pensions, it may transpire that the new rules could result in disaster for pensions in the UK. If corporate decision makers no longer see pensions as a tax efficient savings environment for them as individuals, there is a risk that their engagement with the company's pension provision as a whole may be affected.

It is vital that the key decision makers at companies remain committed to pensions as a part of reward strategy. We appreciate that the credit crunch and economic turmoil of the last couple of years has left the nation's finances in a difficult state, but we suggest that the potential damage to the foundations of retirement saving that may result from these changes may be disproportionate to the intended fiscal benefits.

We urge the government to reconsider if its policy objectives can be met through alternative means, such as a lower annual allowance, or more deep-seated changes such as the withdrawal of tax relief in favour of practical input limits and tax-free income in retirement.

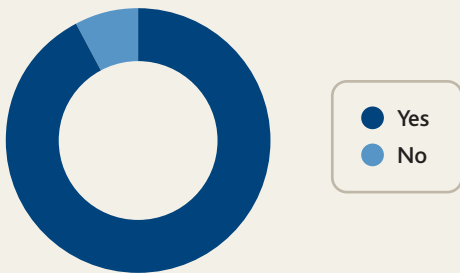
Employer duties and the National Employment Savings Trust

Note – since the survey was issued, there have been several developments around the introduction of employer duties in 2012, including a change of name from personal accounts to National Employment Savings Trust (NEST). Where we would have originally referred to personal accounts within the survey questionnaire, we refer in this report to NEST.

Key facts

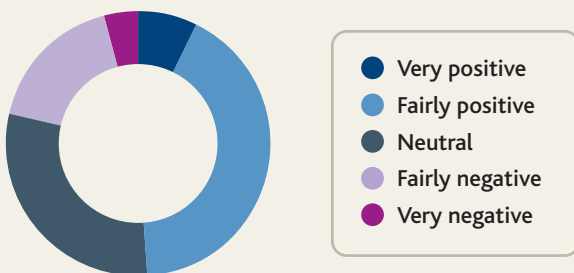
- 92% of respondents are familiar with employer duties
- 49% of respondents view employer duties positively
- 98% of employers will retain their existing schemes for either some or all staff
- 80% of schemes may need to be reviewed to ensure compliance with the exemption criteria

Are you familiar with employer duties?



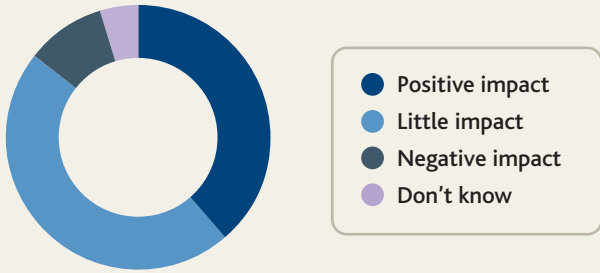
Only 8% of respondents are not familiar with employer duties, a similar result to our 2009 survey.

How do you view employer duties?



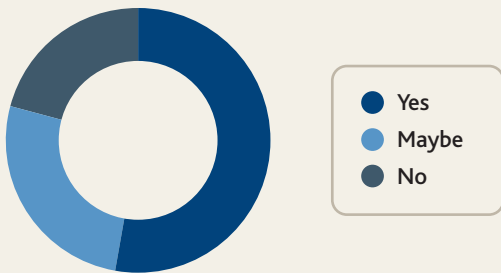
Respondents were generally positive about employer duties, with 49% either fairly or very positive. Only 21% of respondents viewed employer duties negatively.

Impact on the UK's retirement savings



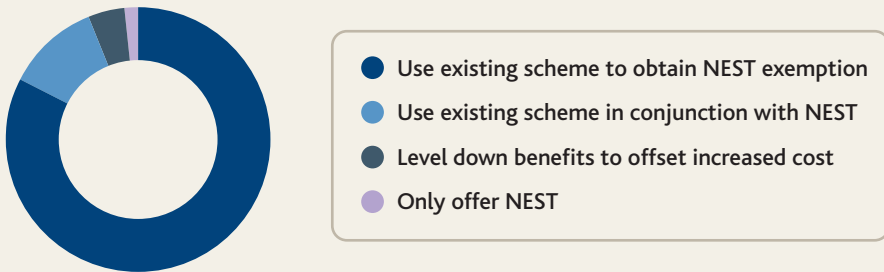
47% of respondents feel that employer duties will have little impact on retirement saving in the UK, while 39% believe there will be a positive impact. The 2009 survey showed that 42% of respondents felt there would be little impact and 50% of respondents felt there would be a positive impact.

Will existing schemes need to be reviewed?



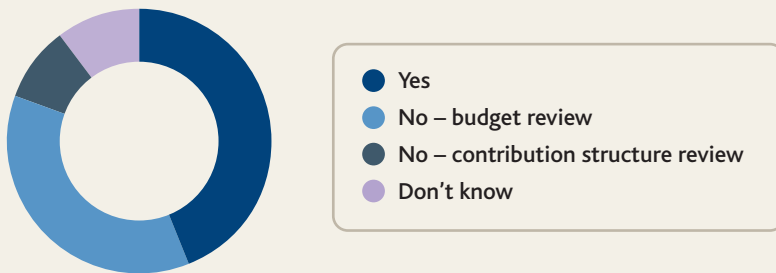
53% of respondents believe that their provision will need to be reviewed, broadly the same as in 2009 when the figure was 54%.

Preferred approach at this stage



98% of companies intend to use their existing scheme, at least to some degree, with 82% intending to use it to obtain exemption.

Does your pension budget allow for the higher take up rates that will follow the introduction of auto-enrolment?



44% of respondents believe their pension budget already allows for the higher take up rates which will follow the introduction of automatic enrolment, with a further 37% intending to review the budget.

9% of companies intend to review the contribution structure – this may result in reductions to contribution rates.

Survey respondents' views:

"If the Government wants these proposals to work, it needs to understand how pension schemes operate in the real world. It must stop basing its legislation/regulation on the theoretical world which it seems to inhabit."

"The whole project will fail unless the problem of the Minimum Income Guarantee trap is sorted out first."

"Pensions are a key factor in the overall total benefit package and as employers our responsibility if we offer one is to ensure it is effectively communicated and staff value the benefit."

"Cost to business unsustainable so will result in 'dumbing down' across existing arrangements."

Survey respondents' views:

"I think it will result in levelling down of contributions from occupational schemes."

"Rates are not high enough to generate a decent pension, should be minimum 6% employer, ideally 10%, and employees' minimum 5%, up to 10%."

"Good idea to push people towards saving for retirement, but this is an additional cost for the employer, which is not great for small organisations."

"This will be a considerable additional expense to our business."

"Qualifying earnings definition and auto-enrolment and opt-out procedures and timescales need more attention. It is currently unnecessarily complicated."

"It is papering over the cracks."

"With a slow recovery out of recession predicted, I am concerned about the affordability for both employees and employers."

"Good to encourage pension saving and employer minimum contribution is reasonable."

Our view

The forthcoming introduction of employer duties will be the biggest change in pension provision in the UK for a generation. Its evolution thus far has not been without problems and, as highlighted by the results of our survey, there is some debate over the impact it will have on retirement savings in the UK.

Following our 2009 survey, we welcome the clarification from PADA that NEST is not intended to replace the current good quality company pension provision that exists within the UK, but to complement it. The success of this strategy is demonstrated by the fact that 98% of respondents are, for now, intending to retain their existing scheme, at least to some degree.

It is, therefore, imperative that the exemption criteria for qualifying pension schemes is clear and simple, to ensure minimal additional administration for companies.

Much remains to be done to convince employers and scheme representatives that employer duties is an emphatically positive step. Issues such as means testing, the suitability of auto-enrolment for certain sections of the population and the adequacy of the contribution levels continue to add to the debate, with equally strong views being made on both sides.

While only 5% of respondents are looking to level down contributions, given that 37% of respondents will need to review pension budgets, the eventual number of companies levelling down contributions may well be higher than this, particularly if the economic climate does not improve.

We believe that the reforms are good, up to a point. Clearly the issue of means testing needs to be resolved, and we also believe that the parameters for auto-enrolment, as they stand, are storing up problems for the future.

The regulations currently state that employees aged between 22 and 65 must be auto-enrolled into NEST, or an alternative qualifying arrangement. We believe this age band is too wide and should be revised to something in the order of 30 to 55. This will give younger employees time to become financially stable and ensure that older employees are only auto-enrolled into a scheme when membership is likely to be worthwhile, particularly in light of any changes to means tested state retirement benefits.

The earnings definition for exempt schemes conflicts with the established approach of salary being pensionable from the first pound. This will create complication for employers looking to provide more than the minimum contributions for their employees.

The earnings definition will also create the illogical scenario of employees earning close to the threshold seeing contribution entitlements of just a few pounds a year. This seems at odds with the objective of helping low earners build private provision for retirement, over and above their reliance on state pension benefits.

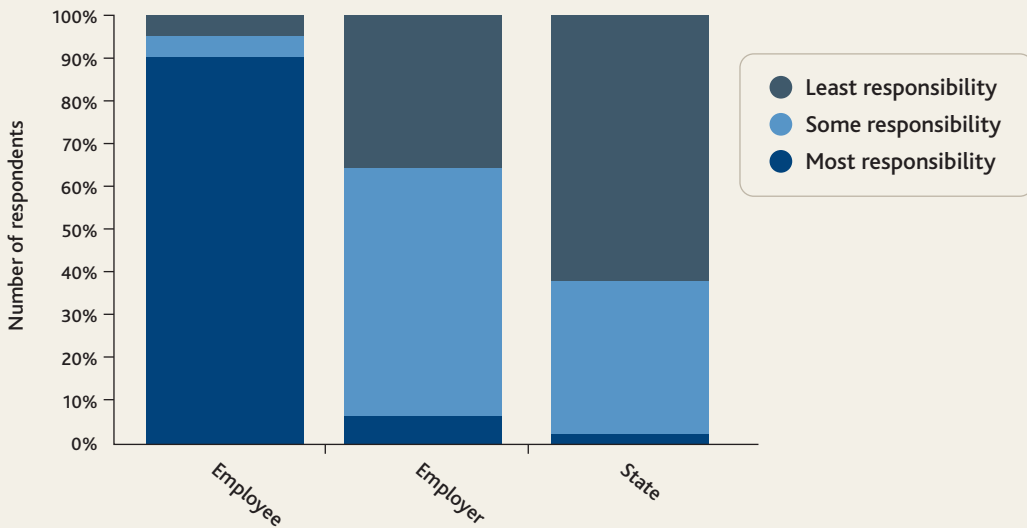
There is an acceptance that with the decline of a savings culture in the UK over recent years, something must be done to improve saving and pension provision. However, there is scepticism as to whether employer duties offers the solution in its current form and we believe that there are fundamental issues that must be resolved before launch.

The welfare debate

Key facts

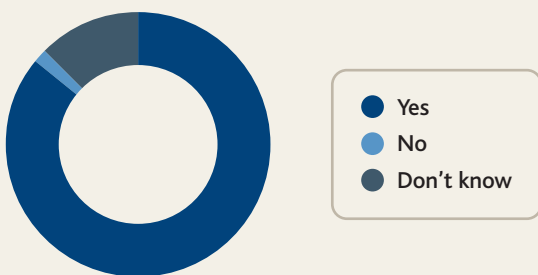
- 92% of respondents believe that the responsibility for retirement planning rests primarily with the employee
- 86% of respondents believe there will be a change of government at the next election
- 14% of respondents believe this will have a positive impact on pensions
- 57% of respondents believe that this will have little impact on pensions
- 36% of respondents believe that Conservative plans for a lifetime savings vehicle are a good idea

Responsibility for retirement saving



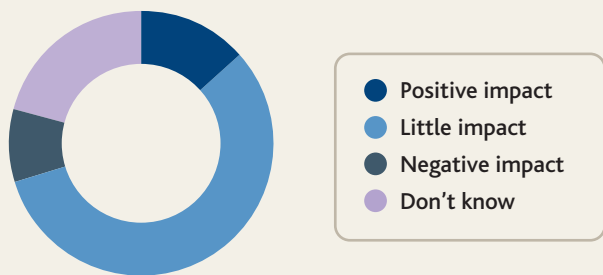
Respondents overwhelmingly felt that individuals hold the most responsibility for their own retirement provision.

Do you think there will be a change of government in 2010?



86% of respondents believe there will be a change of government at the next election.

Impact of a change of government on pensions



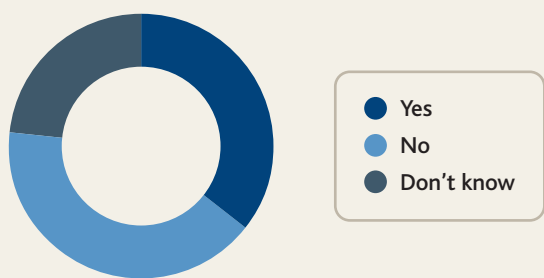
57% of respondents believe a change of government will have little impact on pensions.

Survey respondents' views:

"A commitment to stop mucking about with pension legislation by the Government would be a huge benefit but is probably a pipedream."

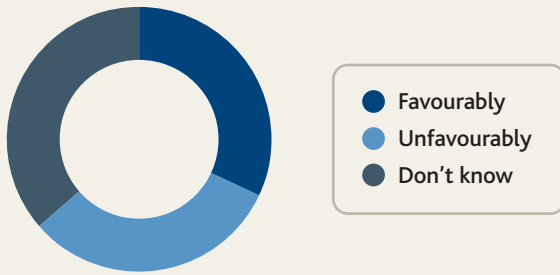
"Government interference – they cannot leave pensions alone!"

Is the Conservative Party's plan for a lifetime savings vehicle a good idea?



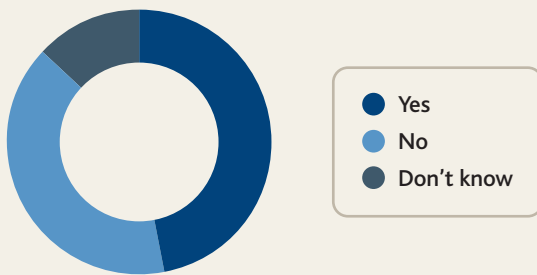
36% of respondents think the idea of a lifetime savings product is good, while 41% disagree.

How would a lifetime savings vehicle compare with employer duties?



There is a fairly even split of opinion, although the highest proportion of respondents, perhaps understandably, did not know whether the proposals compare favourably or not. There have been no firm details as to how a lifetime savings vehicle would operate.

Personal level – meeting target requirement



From the individuals that completed this question, 47% believe they are on target to meet their desired level of retirement income, although 40% believe they are not.

Our view

Nearly all of our respondents feel that the responsibility for retirement saving rests primarily with the individual. However, the reality for many of those now in retirement is that state benefits are likely to form either a large proportion or the whole of their retirement income.

The evolution of state retirement provision since its inception has been reactive to demographic changes, cost and the drive to achieve a position of 'affordable fairness'. Private pension savings have long been disrupted by changes in government policy.

With only 14% of our respondents believing a change in government will have a positive impact on pensions, cross-party consensus is essential to achieve stability for non-state pension provision and bring an end to the constant damaging intervention arising from conflicting policies.

The state pension system must be improved, with a rise in the value of the basic state pension funded through an accelerated but realistic increase to the state pension age, and the introduction of practical flexibility around how and when benefits can be taken. If Pension Credit is continued it must stop being punitive to those with moderate private provision and not discourage retirement savings.

The consensus of opinion around employer duties and NEST is under increasing strain as we approach the general election; the Conservatives have confirmed they would conduct an urgent review while the Liberal Democrats have indicated they would want to make fundamental changes.

We believe that this situation is a damning indictment of pensions in the UK and demonstrates that these issues must be de-politicised. The focus must be on solutions and reaching a consensus for the future, so that improvements can be made that will survive in the face of changing governments.

Furthermore, the employee will have the ability to opt out of employer duties and therefore holds the key to its success. Individual compulsion could prove necessary and the underlying method of saving would need to offer an undeniable benefit to individuals. Using the National Insurance system to collect contributions and provide an additional funded, ring-fenced and substantial tier of state provision could better meet the requirements of workplace saving by giving a clear and quantifiable benefit.

Summary

In our 2009 survey, we focused on the issue of poverty which affected 2.5 million UK pensioners.¹ The Office of National Statistics recently reported that this figure has fallen to 2 million,² but there can be no argument that this is intolerable in modern society.

The UK's pension landscape is currently dominated by two themes; the decline of final salary pension provision and the move towards compulsory pension savings.

The first step towards compulsion came in 2001, with the introduction of stakeholder pensions. The key objective of this change was to facilitate employee saving by providing easy access to a low-cost workplace pension scheme. While this led to positive developments in many areas, it did not attract large numbers of new pension savers, most likely because of a lack of enforced minimum contributions.

With employer duties being introduced in 2012, the government will again try to increase the number of pension savers in the UK and address the issue of retirement poverty.

However, it will not be until October 2017, 12 years after the Turner Report of 2005, that the phasing in of employer duties will be complete and the full contribution rate of 8% of qualifying earnings will take effect. In addition to the question of whether this rate is high enough, the definition of earnings on which these contributions will be based may lead to little or no benefit for the lowest earners. The resulting paradox requires the government to address the elements of state provision that conflict with private saving for these individuals.

If left unresolved, and while there is likely to be an increase in the number of retirement savers, employer duties will be of questionable benefit for many. For some, it may even be a waste of desperately needed income. This highlights the need for parallel thinking in relation to state provision and an accompanying consistency of approach from political parties.

Many employers intend to pay contribution rates above those required by employer duties and offer employees a benefit that exceeds the statutory minimum from 2012. This must be facilitated through the practicable operation of NEST-exemption criteria with a clear message being sent to companies that plans made now will not become redundant in a few years time through changing policy.

¹ <http://www.ageconcern.org.uk/AgeConcern/pensioner-inflation-release-090309.asp>

² <http://www.statistics.gov.uk/cci/nugget.asp?id=2352>

Conclusions

The lack of saving in the UK is only now being addressed. The baby boomer generation has fared pretty well from pensions in the UK and will be the last to fully benefit from final salary pension schemes. Generations X, Y and beyond now need effective and enduring measures from our country's leaders to help them avoid bleak retirement prospects.

The way in which people cease work at the end of their careers has changed dramatically over the last few years. The historic concept of a 'cliff edge' retirement, facilitated by final salary schemes, is being replaced by a more flexible transition from employment.

A gradual cessation of employment and phasing in of retirement is becoming increasingly common and is made easier by DC pensions, but many of the vehicles we use to fund our retirements are not geared up to this approach. Partial withdrawal from pension savings is currently complex, while investment options such as lifestyling and target-dated funds operate under a predetermined single maturity date.

There needs to be a fundamental review of pensions in the UK, starting with the state pension system and progressing to company and private provision, aimed at providing the benefits that people want and need. A degree of compulsion may be inevitable and indeed appropriate, but if proceeded with in an arbitrary manner, it risks being counterproductive for many savers.

Whatever we do with pensions, reforming them and turning them into something suitable for the current and future generations, there is an argument that the concept and the name 'pensions' may already be irreparably damaged.

The idea of workplace, retirement or lifetime savings vehicles may help create a new start, and some of the products needed to do this are already being developed or have been launched. The potential for an employer to offer a variety of savings vehicles, including traditional pension schemes, within a 'corporate wrap' could give greater flexibility to employees and contribute to a return of a savings culture in the UK.

Whatever the future holds, any changes must not face a slow legislative death. The framework put in place must allow and encourage saving in a simple tax efficient environment, within durable limits. The move towards compulsion and NEST has the potential to form part of the solution, but needs clear thinking and a consensus among all stakeholders to achieve real long-term viability.



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