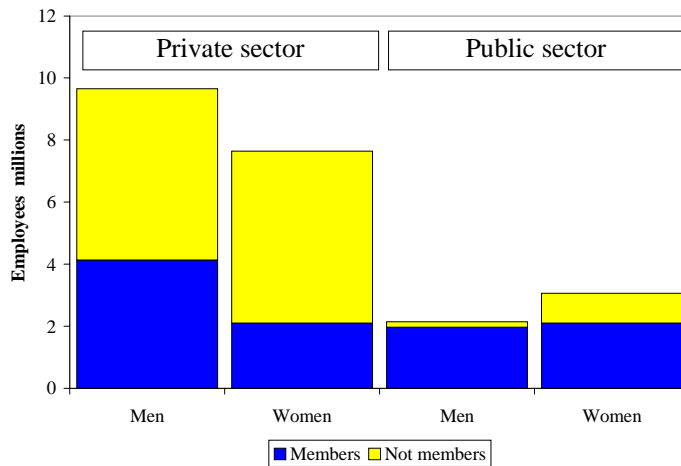


Occupational Pension Schemes 1995

Tenth Survey by the Government Actuary - Summary of main findings

Figure 1: Employees by membership of occupational pension schemes 1995



The Government Actuary has recently completed the tenth in a regular series of surveys of occupational pension schemes in the United Kingdom based on the position in 1995. Information was obtained from a random sample of over 1,500 pension schemes in the public and private sectors.

The results of this survey have been published in a report, issued on 31 January 2001¹. The report provides an overview of occupational pension provision in the United Kingdom prior to the major

reforms introduced by the Pensions Act 1995, many of the provisions of which came into force in April 1997. Personal pensions are not covered by the report. This summary gives some of the main findings from the report.

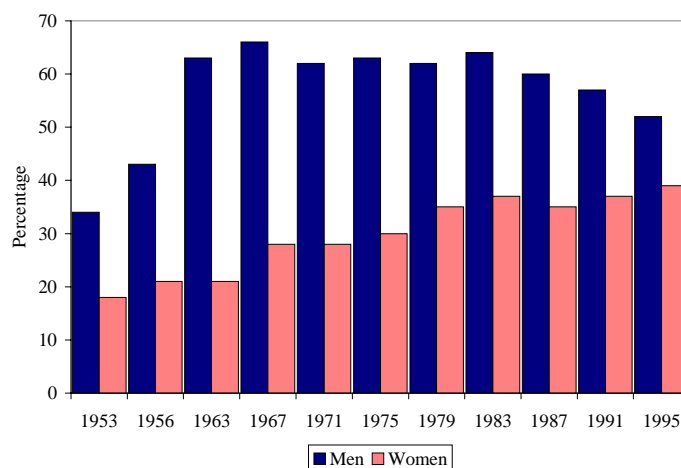
Numbers of people with occupational pension rights

The number of employees in occupational pension schemes in respect of their employment in 1995 is estimated at about 10.3 million, about 46% of all

employees in employment (including part-time workers) and members of the Armed Forces. Of these, 6.1 million were men and 4.2 million were women. The proportion of employees covered was higher for men (52%) than for women (39%), and higher in the public sector (78%) than the private sector (36%) - see Figure 1.

Figure 2 shows, separately for men and women, the percentage of employees who were members of pension schemes for each of the years since 1953 in which a survey has been carried out. After growing rapidly in the 1950s and 1960s, the overall membership has fluctuated around 50% from the late 1960s until the late 1980s since when the trend has been for a gradual decline. The proportion of male employees who are members of an occupational pension scheme has been falling since 1983 when 64% were members compared with 52% in 1995. For women, the trend has been for a continual increase in coverage, except for a slight dip in 1987, reaching a high of 39% in 1995.

Figure 2: Percentage of employees who were members of pension schemes, UK, 1953-1995



The number of pensions in payment has grown rapidly (see Figure 3). There were around 8.5 million pensions in payment in 1995, although, since some people receive a pension from more than one scheme, the actual number of pensioners was a lower figure of around 7.5 million. About 7.0 million individuals had a right to a preserved pension in respect of a former employment, payable when they reach pension age.

Around 80% of members of private sector occupational pension schemes were contracted-out of the state

Figure 3: Number of pensions in payment

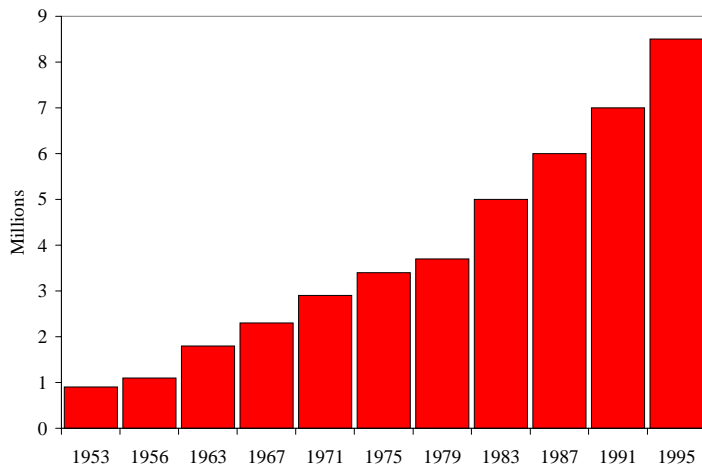
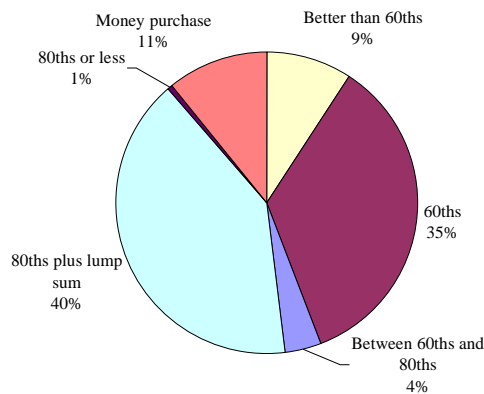


Figure 4: Pension accrual fractions



earnings-related additional pension scheme (SERPS). This is a small decline from the 84% recorded in the 1991 survey, but in line with proportions during the 1980s. Virtually all public sector schemes are contracted out.

Scheme benefits

The 6.1 million people who were members of pension schemes in the private sector belonged to an estimated 151,000 schemes. Of these, nearly 38,000 schemes were defined benefit arrangements, covering around 4.7 million employees, nearly 109,500 schemes were defined contribution schemes covering nearly 1.1 million employees and about 3,500 schemes were hybrid schemes (which combine elements of both

defined benefit and defined contribution schemes) covering around 0.3 million employees. Virtually all public sector schemes are defined benefit schemes.

Around 43 per cent of members of private sector defined benefit

schemes were in schemes which made some adjustment to pension or pay to allow for the payment of state scheme pensions (compared to 51 per cent in 1991).

Figure 4 shows the proportions of members in schemes by their pension accrual rates. By far the most common accrual rate in private sector defined benefit schemes was a sixtieth for each year of service, whilst in the public sector over 83 per cent of members were in schemes providing an eightieth accrual rate plus a three-eighths lump sum.

Nearly all schemes include provision for paying an immediate pension following ill-health retirement. In the private sector 41 per cent of members in defined benefit schemes would receive an ill-health pension based on full potential service to normal retirement age with no reduction for early payment. However, 26 per cent would receive a pension based on accrued service only, and for almost 65 per cent of these members the pension would be further reduced to allow for early payment. Some 2 per cent would receive no pension or at the trustees' discretion only. Nearly all public sector schemes provide ill-health

Figure 5: Lump sum payable on death in service expressed as a multiple of salary at date of death

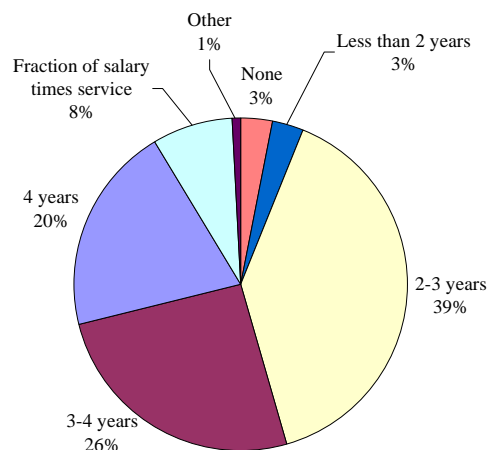
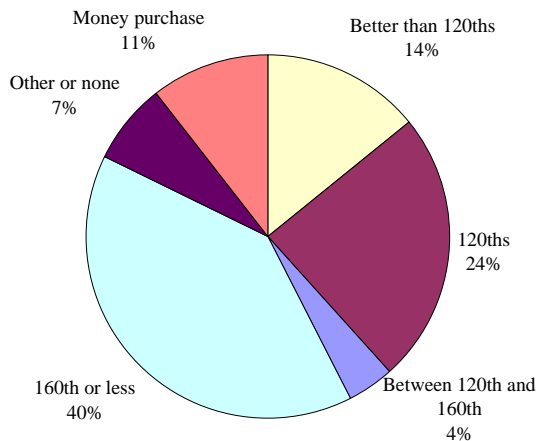


Figure 6: Accrual rates for spouse's pension on death in service



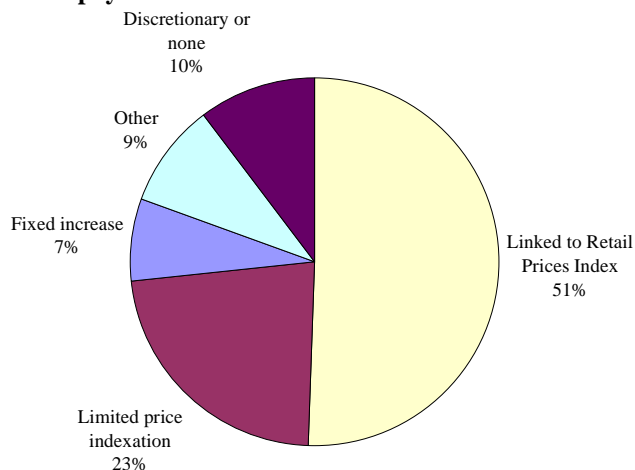
pensions based on service which is usually enhanced, though not to the extent of full potential service. In money purchase schemes the most common form of benefit is a return of the member's accumulated fund. Around 0.8 million members are covered by separate permanent health insurance which replaces a proportion of the member's income until recovery or the scheme pension age is reached, when an ill-health pension would normally be paid from the scheme.

Figure 5 shows the proportions of members with rights to various amounts of lump sum compared to their salary at or near to the date of death, should

they die in employment. The most common multiple in the private sector was 3 times salary at, or near, death, whilst in the public sector the most common multiple was 2 times salary.

Many defined benefit schemes provide a spouse's pension following the death in service of a member, which is a fraction of salary for each year of service (see Figure 6). The most common fraction in the private sector was 1/120th and in the public sector 1/160th. Usually some or all of the period of potential employment from the date of death to the normal retirement age for the scheme is counted as service in addition to the period of actual

Figure 7: Pensions increase guaranteed by scheme rules to pensions in payment in 1995 from defined benefit schemes



employment. The pattern of spouse's pension accrual rates following death after retirement is very similar. The benefits provided from defined contribution schemes usually depend on the type of pension bought with the proceeds of the accumulated contributions credited to the member at his or her earlier death in service or at retirement.

Pensions in payment

The Social Security Act 1990 introduced legislation allowing the Government to require all defined benefit schemes to provide annual pension increases in line with increases in the Retail Prices Index up to a maximum of 5 per cent a year on that part of the pension in excess of any guaranteed minimum pension earned in respect of service after the 'appointed day'. This increase is often referred to as 'limited price indexation' (LPI). At the time of the survey these regulations had not been implemented. However, the Pensions Act 1995 subsequently implemented limited price indexation for all pensions accrued in defined benefit schemes in respect of service after 5 April 1997 (including all contracted out and non-contracted out rights). These provisions also required annuities giving LPI to be purchased with defined contribution occupational scheme rights accrued after 5 April 1997.

However, by 1995, over 60 per cent of pensions in payment from private sector defined benefit schemes were guaranteed annual pension increases at least as good as LPI. Together with those pensions receiving discretionary increases, nearly 94 per cent of pensions in payment in private sector

Table 1 – Number and membership of private sector schemes according to the groups of people involved in appointing trustees

Groups involved in appointing trustees	Schemes	Members
		<i>Thousands</i>
Employer	112,780	5,340
Employees other than scheme members	1,880	110
Trade unions	770	1,090
Trustees	29,770	1,100
Active scheme member ¹	12,210	1,950
Deferred pensioner	790	80
Current pensioner	1,040	500
Other	3,550	370

¹ Excluding senior management

N.B. Schemes may be in more than one category in the table

Table 2 – Numbers and membership of private sector schemes according to numbers of trustees in various categories

Type of trustees	Schemes	Members
		<i>thousands</i>
Senior management	88,780	4,880
Active scheme member ¹	21,330	3,380
Deferred pensioner	450	70
Current pensioner	8,090	1,440
Other	11,370	1,030

¹ Excluding senior management

N.B. Schemes may be in more than one category in the table

schemes received an increase during 1995. In the public sector, nearly all pensions are increased in line with increases in the Retail Prices Index.

In terms of active members of schemes, about 77% of members of defined benefit private sector schemes were in schemes which provided guaranteed annual pension increases of some form; a further 18% were in schemes which provided annual pension increases on a discretionary basis only.

Trustees

Pension schemes are normally required, in order to secure Inland Revenue approval, to be set up as trusts and administered by trustees.

The Pensions Act 1995 provided a requirement for schemes to introduce member-nominated trustees, unless alternative arrangements were agreed by the members. Table 1 gives details of numbers and membership of schemes where various groups of people are involved in appointing some, or all, trustees. At least 38 per cent of members in private sector schemes in 1995 were in schemes where at least one trustee is appointed by the members of the scheme.

Table 2 shows figures for the relationship of trustees of private sector defined benefit schemes to the scheme or the employer.

Scheme assets

It is estimated that the assets held by funded self-administered schemes at the end of 1995 amounted to around £510 billion, with a further £70 billion held as reserves by insurance companies at that time in respect of insured occupational pension schemes.

ⁱ Occupational Pension Schemes 1995 – Tenth survey by the Government Actuary (The Stationery Office, ISBN 0 11 560083 3, price £17-50)