

# **Occupational Pension Schemes**

**2005**

**The thirteenth survey by the Government Actuary**

The Government Actuary's Department  
London

June 2006

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# Contents

Foreword by the Government Actuary .....	iii
Acknowledgements .....	iv
Chapter 1 – Introduction and executive summary .....	1
Scope of the survey .....	2
General information on scheme classification .....	4
Executive summary .....	8
On-line query builder .....	16
Future surveys .....	16
Chapter 2 – Private-sector scheme numbers .....	19
Private-sector schemes by contracted-out status.....	23
Chapter 3 – Private-sector scheme membership .....	25
Active employee members of private-sector schemes.....	27
Changes in scheme membership, 2004 - 2005.....	31
History of active employee membership of private-sector schemes.....	32
Conditions for membership based on category of employee.....	36
Automatic membership for new employees (auto-enrolment).....	38
Pensioner members in private-sector schemes .....	41
Treatment of benefits on divorce .....	48
Chapter 4 – Scheme administration .....	49
Overall approach to scheme administration.....	50
Third party administrators – appointment and review .....	55
Standards for administration .....	61
Number of employees working on pension administration .....	65
Chapter 5 – Expenses of administering schemes.....	67
Chapter 6 – Communications.....	70
Frequency of benefit statements .....	71
Statutory money purchase illustrations.....	74
Newsletters and other regular written communications .....	78
Use of websites in scheme communications .....	82
Ensuring communications are understood by members .....	83
Additional help for members in planning their retirement.....	84
Communication with non-members .....	85
Chapter 7 – Features of defined-contribution schemes .....	86
Investment of members’ contributions – rates of return.....	87
“Lifestyle” investments .....	88
Charges to members’ accounts.....	90
“Salary sacrifice” arrangements in defined-contribution schemes.....	91

Chapter 8 – Contributions to schemes .....	92
Contributions to private-sector defined-benefit schemes in the form of lump sum payments .....	101
History of contribution rates .....	101
Contributions by contracted-out status .....	103
Structures for contributions to defined-contribution schemes.....	104
Additional voluntary contributions (AVCs).....	106
Chapter 9 – Very small schemes .....	107
Communications with members in very small schemes.....	109
Contributions to very small schemes .....	109
Chapter 10 – Schemes which are winding up.....	110
Membership of winding-up schemes.....	110
Notification of winding up .....	110
Chapter 11 – Changes to pension schemes.....	113
Future changes .....	116
Replacement of occupational pension scheme with contract-based arrangement.....	117
Chapter 12 – Methodology .....	118
Designing the questionnaires .....	118
The electronic questionnaire.....	120
Selecting the sample .....	121
Quality of responses .....	123
Timing of responses.....	124
Response rates .....	124
Rating up the results.....	126
Calculation of standard errors .....	128
Glossary .....	130
References.....	138

## Foreword by the Government Actuary

We at the Government Actuary's Department are pleased to present our latest survey of occupational pension schemes in the United Kingdom - the thirteenth in a series spanning the last 50 years.



The results of this survey are published only a year after those for the twelfth survey, and relate to just one year later. This represents a departure from the previous practice of conducting a survey only every four years. The greater frequency arises following the review of the surveys which we carried out in 2003 - this review recommended annual surveys, with each year's survey focussing on a different area of pension scheme activity or practice, and each area to be revisited every three or so years.

Therefore the results of this survey are not directly comparable with those of the twelfth survey. That survey focussed particularly on the benefits offered by schemes, particularly defined-benefit schemes. This new survey focuses on approaches that schemes have towards their administration, communication with members and expenses. These are key issues at a time when schemes are seeking to ensure that they implement changes required or allowed by new legislation in a world where controlling costs is of the greatest importance.

Some results are comparable with the twelfth survey, as issues such as contributions to schemes were felt to be of sufficient interest to warrant inclusion once more. This current survey also focuses on a number of aspects of defined-contribution schemes, building on results in the twelfth survey.

The world of pension statistics has changed a lot recently, what with the Pensions Commission's reports and the establishment of the Pensions Regulator following the passage of the Pensions Act 2004. At more or less the same time the Morris Review of the actuarial profession and of the Government Actuary's Department recommended that the survey of occupational pension schemes be moved away from GAD. In future such surveys will be carried out and published by the Office for National Statistics. With that department's expertise in conducting surveys, we believe that the survey will be in good hands going forward, and should continue to play a useful role in informing debate on pension issues.

A handwritten signature in black ink, appearing to read 'Chris Daykin'. The signature is written in a cursive style and is positioned above the printed name.

Chris Daykin, Government Actuary  
June 2006

## **Acknowledgements**

The Government Actuary would like to thank all of the schemes, advisers and administrators who responded to the survey.

The sample of schemes for the survey was provided by the Pension Schemes Registry, as administered by the Pensions Regulator.

Detailed assistance was received from the survey's advisory group, whose membership was drawn from other government departments and the pensions industry. Organisations represented included the Department for Work and Pensions, the Pensions Commission (as it then was), the Pensions Regulator, the Office for National Statistics and HM Revenue & Customs, and, from outside government, the Association of British Insurers, the National Association of Pension Funds, the Pensions Management Institute, and the Society of Pension Consultants. In addition there were two individual members representing different types of users of pension statistics. All those on the group gave their support to the survey and assisted with defining the questions asked and other technical issues. The OPSS team is most grateful to the group for the time they have invested since work on this survey began in 2005.

Methodology for calculating standard errors for the key estimates, as used in both this survey and last year's, was originally based on advice from Dr David Holmes of the University of Southampton for which the OPSS team are grateful.

The glossary at the end of this document draws heavily on the Pensions Management Institute (PMI) publication "Pensions Terminology", and these definitions are reproduced with kind permission from the PMI.

## Chapter 1 – Introduction and executive summary

- 1.1 Since the 1950s, the Government Actuary has conducted a series of surveys of occupational pension schemes in the United Kingdom. Each survey in the series provides a detailed view of the nature of occupational pension provision in the UK. Taken together, they form a series of pictures which allow the changes in the nature of that provision to be studied. Until 2003 the surveys were conducted every four to five years. Following a review in that year the surveys have been annual, with the twelfth survey as at 2004 being published in 2005, and this survey, the thirteenth, with data as at 2005.
- 1.2 This thirteenth survey updates many of the statistics of previous surveys, such as the number of members of private-sector occupational pension schemes. As in the twelfth survey, estimates of the numbers of private-sector schemes in existence are given in chapter 2, whilst the estimates of numbers of members in those schemes are given in chapter 3. While these results are given for consistency with previous surveys, any sample-based results will be superseded in the near future by figures from the Pensions Regulator based on returns completed by pension schemes.
- 1.3 The main focus of this survey is on administration and expenses of private-sector occupational pension schemes. The results of the analysis of administration are shown in chapter 4, with expenses being covered in chapter 5. Chapter 6 gives analysis on general communications and benefit forecasts sent by schemes to members. Chapter 7 provides analysis on the features of defined-contribution schemes.
- 1.4 The survey also gathered information on the contributions made to schemes by members and sponsoring employers, and the results are presented in chapter 8. Additional information on schemes which either have very few members, or which are winding up, is provided in chapter 9 (very small schemes, which are those with fewer than 12 members) and chapter 10 (winding-up schemes). Chapter 11 considers the changes that schemes have made to their arrangements since the twelfth survey, and also covers briefly other forms of pension provision by employers.

- 1.5 The methodology employed by the survey, including the approach to sampling and the treatment of responses, is very similar to that used for the twelfth survey; the methodology used is outlined in Chapter 12. This chapter also gives details of the response rate achieved. It should be noted that responding to the survey was voluntary for those schemes which were chosen to take part.

## **Scope of the survey**

- 1.6 As with the previous surveys, the scope of this survey was restricted to occupational pension schemes, set up under trust law by one or more employers for the benefit of their employees. Hereafter, we refer to occupational pension schemes simply as schemes. Unlike previous surveys in the series, this survey covers only private-sector occupational pension schemes – this aspect of coverage is discussed more in paragraph 1.13 below.
- 1.7 The survey does not cover personal pensions, where individuals enter into a contract with a pension provider (usually an insurance company). This exclusion extends to group personal pensions (GPPs). Although GPPs can be sponsored by employers, with the employers facilitating membership and payment of contributions for the members, the legal contract is between the individual and the pension provider. Stakeholder pensions are almost always another form of contract-based personal pension, and are therefore also excluded from the survey.
- 1.8 The possibility of including personal pensions, with GPPs and contract-based stakeholder pensions, was considered in a major review<sup>1</sup> of the GAD surveys carried out in 2003. However, that review confirmed the decision to exclude them from the surveys. The reasons (paragraphs 6.1 to 6.4 of the report) concerned difficulties in defining a suitable sampling frame, and the extent to which contract-based arrangements would differ, in terms, for example, of contributions paid and benefits, for different members.

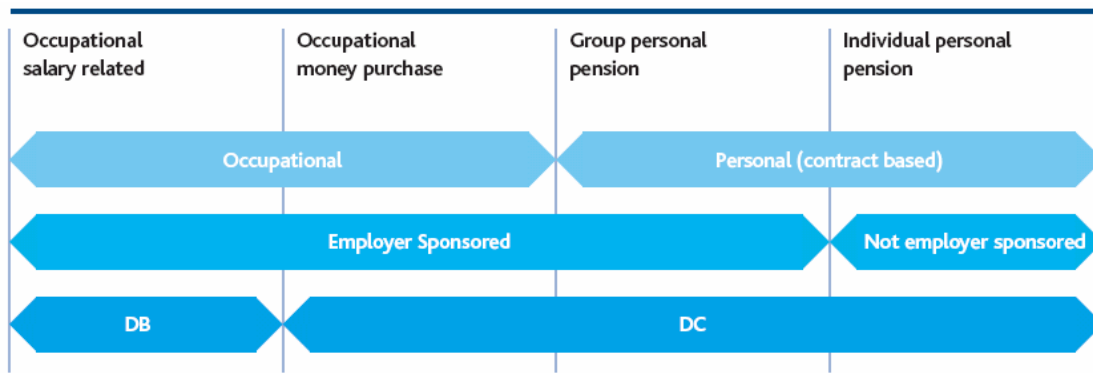
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<sup>1</sup> “Occupational pension schemes survey: review following the September 2002 report: ‘Review of ONS pension contributions statistics’ report”

1.9 Figure 1.1, reproduced with kind permission from the First Report of the Pensions Commission, shows how the concepts of occupational and personal pensions interact with employer sponsorship. It also shows how occupational schemes can be further distinguished by the basis on which benefits at retirement are given: that is, whether benefits are related to the member's earnings or salary, or are based on the accumulation of contributions paid. This survey is concerned only with occupational provision, the left hand two columns in the diagram.

Table 1.1 Types of private pension provision

(Table 3.3 in Pensions: Challenges and Choices – The First Report of the Pensions Commission)



Note: An occupational scheme is one with scheme trustees and governed by trust law. A personal pension (whether sponsored by an employer or not) has the legal form of a contract between an individual and a pension provider (usually an insurance company). Individual personal pensions are most common among the self-employed and others who are not entitled to join occupational schemes such as those in partnerships. Stakeholder pensions are a subset of personal pensions and can be either GPP or individual personal pension in form.

Source: "Pensions: Challenges and choices, the first report of the Pensions Commission", Pensions Commission, October 2004

1.10 The results presented throughout the document are as at 6 April 2005. For many schemes, this would be the turn of their scheme year.

1.11 The survey includes only schemes that are registered in the UK. Where membership figures are given, these relate only to employees based in the UK.

1.12 The sample for the survey was based on the Pension Schemes Registry, maintained in 2005 by the Pensions Regulator (TPR). At the time, this formed a register of all of the occupational and personal pension schemes in the United Kingdom. However, since its foundation, TPR has been working on constructing a new, more up-to-date register based on information in scheme returns. When completed this will provide definitive information on scheme members and the membership of schemes. The number of schemes and members in these results, based, as they are, on a sample drawn from the then scheme register, should not be regarded as definitive.

### **General information on scheme classification**

1.13 When considering occupational pension schemes, it is useful to distinguish between those in the public sector and those in the private sector. As mentioned above, unlike previous surveys, this survey only covers results from schemes that are in the private sector. It was felt that issues of administration, communication and expenses were more relevant for private-sector schemes than for public-sector schemes. Omitting public-sector schemes from the survey allowed more private-sector schemes to be included in the sample.

1.14 For the purposes of the survey private-sector schemes include schemes which cover employment in such public-sector areas as the Bank of England, the BBC, Transport for London, universities and the Post Office, as well as schemes where there is an element of a government guarantee (such as the frozen schemes for the pre-privatisation coal industry). The schemes for these organisations are managed in similar ways to the schemes run by private-sector employers.

1.15 Another important feature of a scheme is its status. Schemes were asked which of the following statuses best described their scheme:

- open to new members, allowing employees of the sponsoring employer(s) to become active employee members, by joining and starting to pay contributions and/or to accrue benefits;
- closed to new members, but with existing active employee members continuing to pay contributions and/or accrue benefits;
- frozen, where there are no more active employee members paying contributions or accruing benefits, but where other members are receiving pensions or are due to receive benefits

when they reach pensionable age (frozen schemes are sometimes treated as a subset of closed schemes); or

- winding up, where the scheme is being terminated and the trustees or managers are seeking alternative ways of applying the scheme assets to secure the liabilities in respect of pensions either being paid, or that are due to come into payment when the relevant members reach pensionable age.

1.16 Although a record of scheme status was held on the Pension Schemes Registry database, schemes were asked to confirm their status before questionnaires were sent out, and this allowed schemes which were winding up to be sent a special questionnaire tailored to their situation. The analysis presented in this document uses the status as reported by schemes themselves. At the stage of asking schemes to reconfirm their status, a number of schemes were found to be ineligible for inclusion in the survey – generally because they should not have been on the registry of schemes as live occupational pension schemes with two or more members. The removal of such schemes has had the effect of reducing the overall number of schemes as shown in chapter 2. Further details are given in chapter 12 on methodology.

1.17 A third important feature of a scheme is its benefit structure. The benefits at retirement may be based on members' earnings and/or service; these are referred to as defined-benefit benefits. Alternatively, the benefits offered may be based on the purchase of an annuity with the proceeds of contributions by and on behalf of members plus any investment return earned; these are referred to as defined-contribution benefits, sometimes called money-purchase benefits. The terms defined-benefit and defined-contribution are sometimes abbreviated to DB and DC respectively.

1.18 Every scheme in the sample for the survey was classified according to which type of benefit it offers. Schemes which offer benefits on a defined-benefit basis only are referred to as defined-benefit schemes. Such schemes are commonly referred to as "final salary" schemes, even though benefits may not necessarily be based on the member's salary at the time of retirement or leaving service (for example, some defined-benefit schemes grant a fixed income at retirement, or base benefits on members' average earnings over their employment).

1.19 Conversely, where a scheme offered benefits solely on a defined-contribution basis, it is referred to as a defined-contribution scheme.

- 1.20 Some schemes had more than one section, in that they offered benefits on different bases to different groups of members. For example, one group of members might be offered benefits on a defined-benefit basis, whilst a second group might be offered benefits on a defined-contribution basis. Alternatively, schemes might have different sections in order to offer different levels of the same type of benefit to different members, or simply to account for the benefits and contributions of different groups of members separately.
- 1.21 As in the twelfth survey, these schemes are referred in this document as sectionalised schemes; in the eleventh survey, they were included with the results for hybrid schemes. Where a scheme had more than one section, each section in the scheme was classified separately as either defined-benefit or defined-contribution, according to the benefits it offered. Results such as those for the number of active employee members accruing benefits on a defined-benefit basis are the combination of results for both defined-benefit schemes and defined-benefit sections of sectionalised schemes.
- 1.22 A small number of schemes were hybrid schemes. Such schemes offered benefits on either a defined-benefit or a defined-contribution basis to the same group of members. In these cases, a member's benefit would typically be calculated on a defined-benefit basis, but with an underpin calculated on a defined-contribution basis. For the purposes of the conducting the survey, hybrid schemes were sent the same questionnaire as defined-benefit schemes.
- 1.23 A final key feature of a scheme is the number of members it has; this is referred to throughout as its size. In this survey, the size of a scheme is defined as its total membership, as used by TPR for the purpose of assessing the levy the scheme must pay. Size therefore includes active (employee) members, pensioners with pensions in payment and members with preserved pension entitlements. This information is held on the Pension Schemes Registry. Where results are broken down into groups of schemes of different sizes, this total size is used to classify them. Where results are divided in this way, the allocation of a scheme to a particular size group ("size band") is by the total number of members held on the Pension Schemes Registry.

1.24 However, when results involving the number of scheme members are stated, the membership numbers presented are those reported in schemes' responses to the survey. The total membership of the scheme for these purposes, being the sum of membership in each of the three categories, may not be the same as the membership recorded in the Pension Schemes Registry. Where it is appropriate to consider the number of members in particular categories of membership (for instance when referring to the benefits applicable to a category of membership), the number of members in that category as reported in the schemes' responses to the survey is generally used.

## Executive summary

### *Scheme numbers (chapter 2)*

1.25 Key results concerning the number of schemes include:

- Survey-based estimates of the number of schemes of various types will be superseded by information for all schemes derived from the scheme returns being introduced by the Pensions Regulator.
- The estimate of the total number of private-sector occupational pension schemes in the United Kingdom with 12 or more members is 14,200. **[table 2.1]**
- The majority of schemes with memberships larger than 100 were defined-benefit schemes with one section; a significant proportion of these defined-benefit schemes were either closed or frozen. **[table 2.3]**
- Schemes with between 12 and 99 members were more often defined-contribution than defined-benefit **[table 2.3]**
- In addition there are around 55,000 very small private-sector schemes with fewer than 12 members each. Most of these were defined-contribution schemes. Estimates of numbers of very small schemes are subject to considerable uncertainty. **[tables 2.1 and 2.3]**
- The majority of the large and medium schemes (those with 100 or more members) were contracted-out of the state second pension scheme, most commonly on a salary-related basis. However, smaller schemes were less likely to be contracted-out, with the majority of very small schemes not contracted-out. **[table 2.4]**

## **Scheme membership (chapter 3)**

1.26 Key results concerning the membership of schemes include:

- As with numbers of schemes, survey-based information on number of scheme members will be superseded by information for all schemes based on the scheme return being introduced by the Pensions Regulator.
- In 2005, the overall number of active employee members of private-sector schemes was 4.7 million – this represents a decrease of 0.1 million since 2004, a continuation of the declining trend since 1991. **[table 3.1 and figure 3.1]**
- Similarly, the number of members currently receiving pensions or with an entitlement to a preserved pension has declined. However, these figures are still an increase since the 2000 survey. The number of pensions in payment from private-sector schemes is estimated at around 5.3 million and the number of preserved pension entitlements at 6.4 million. **[table 3.1]**
- Over three-quarters of the active employee members in private-sector schemes were in defined-benefit schemes or sections of schemes, and these were concentrated in schemes with more than 10,000 members. Over half of members of defined-contribution schemes or sections of schemes were in schemes with more than 5,000 members. **[table 3.2]**
- Around two fifths of all active employee members of private-sector defined-benefit schemes and sections of schemes were in schemes or sections that were closed to new entrants. **[table 3.3]**
- Most active employee members of defined-contribution schemes were in schemes or sections that were open to new entrants. **[table 3.3]**
- The most common reason for leaving active employee membership of a private-sector scheme was to become a deferred member (generally on leaving pensionable employment). **[table 3.4]**
- Nearly all active employee members of private-sector defined-benefit schemes and sections were contracted-out of the State second pension, compared to only around 10 per cent of active employee members of defined-contribution schemes. **[paragraph 3.25]**

- Among open private-sector schemes who responded to the survey, around 85 per cent of active employee members are in schemes which are for all categories of employees; this continues a long-term trend away from schemes designed only for particular types of employees (blue collar or management). **[figure 3.2]**
- Around 50 per cent of active employee members of private-sector schemes are in scheme which automatically make eligible new employees members of the scheme (though such new employees then have the right to opt out) – a process often called “auto-enrolment”. This approach to membership for new employees seems to increase the proportion of eligible employees who are members. **[tables 3.7 and 3.8]**
- Pensioner members are concentrated in the largest schemes in the private sector, and in defined-benefit schemes in particular. **[table 3.9 and paragraph 3.42]**
- More than half of members with preserved pension entitlements in private-sector schemes are, again, in schemes in the largest size band (more than 10,000 members). There is, however, a significant number in medium-sized and small schemes. Around five-sixths of members with preserved pension entitlements in private-sector schemes are in defined-benefit schemes and sections. **[tables 3.10 and 3.11]**
- In the private sector, most members are in schemes which operate a policy of always transferring out pension credit members (former spouses of members with rights following a divorce). **[table 3.12]**

## ***Scheme administration (chapter 4)***

1.27 Key results concerning scheme administration include:

- The most common administration arrangement for large, open defined-benefit schemes in the private sector is wholly in-house; around 65 per cent of such schemes with over 5,000 members are administered in this way. Closed defined-benefit schemes tend to outsource their administration more than open schemes, especially the middle bands of schemes. **[figure 4.1]**
- Defined-contribution schemes of all sizes seem to favour outsourcing scheme administration to insurers or third party administrators. **[figure 4.1]**
- Just under seven-tenths of all schemes said they are not insured. Just over one-quarter of all schemes said that they are insured and that the insurer is also the administrator of the scheme – these were concentrated among small schemes. **[table 4.1]**
- The most popular reason stated for choosing to appoint a third party administrator is the belief that schemes are best operated by specialist companies. This is true for both defined-benefit and defined-contribution schemes. **[figure 4.2]**
- For most scheme benefit types and sizes, the favoured period between reviews of outsourced administrators is three years. **[figure 4.3]**
- Large schemes were more likely than small schemes to be aware of the Pension Management Institute's model administration agreement (MAA) as the basis of agreement between trustees and administrator; however only a small proportion of schemes which were aware of the existence of the model agreement actually used it. **[tables 4.2 and 4.3]**
- Most schemes set standards for the administration of different tasks, though there are often considerable differences in the standards set. **[table 4.5]**
- As might be expected, larger schemes and schemes which are administered entirely in-house tended to have more staff (full-time equivalents) working on the administration than schemes in smaller size bands. **[table 4.6]**

## ***Expenses of administering schemes (chapter 5)***

1.28 Key results concerning scheme expenses include:

- As might be expected, average costs per member of administering schemes in the private sector are generally higher for smaller schemes than for larger schemes. Schemes which are administered wholly in-house tend to have lower costs than those that outsource or partially outsource their administration. **[table 5.1]**

## ***Communications (chapter 6)***

1.29 Key results concerning scheme communications include:

- Most schemes and sections of schemes in the private sector issued benefit statements to members on an annual basis (as opposed, for example, to on an “on request” basis). **[table 6.1]**
- Defined-contribution schemes most often issue the statutory money purchase illustrations required by law within 3 to 6 months of the scheme year end, though a substantial minority of schemes manage to do this more quickly. The amount of additional details included in statutory money purchase illustrations varied, with big schemes tending to show more additional information than smaller schemes. **[table 6.2]**
- The larger a scheme is, the more likely it is to have a regular newsletter, and the more likely it is for that regular newsletter to be more frequent than annual. Pensioner members are most likely to receive a newsletter, with active employee members more likely to do so than deferred members. **[table 6.3]**
- Large schemes are most likely to produce a summary version of the trustees’ report and accounts for sending to members. Smaller schemes are slightly more likely than large schemes to send the full version. Again it is clear that members with preserved pension entitlements are much less likely to receive this information automatically than other classes of members. **[table 6.4]**
- Over two-thirds of schemes in the largest size-band operate an internet or intranet site, with much lower proportions for smaller schemes. **[table 6.5]**
- Rather more defined-contribution schemes than defined-benefit schemes (weighted by numbers of members) provide one-to-one sessions with financial advisers for some or all of their members. **[table 6.7]**

## **Features of defined-contribution schemes (chapter 7)**

1.30 Key results concerning defined-contribution schemes include:

- Defined-contribution schemes, both insured and non-insured schemes, reported a very wide range of average investment returns. **[table 7.1]**
- Over half non-pensioner members of defined-contribution schemes are in schemes which practice “lifestyling” in respect of members’ investments, either as the only option for investment or as the default option. “Lifestyling” typically involves moving from a 100% equity asset allocation for younger members to an allocation split 25%-75% between cash and bonds at retirement age, with the change generally starting within 10 years of retirement. **[table 7.2 and paragraphs 7.8 to 7.10]**
- Just under one-quarter of active employee members of defined-contribution schemes belong to schemes where some kind of “salary sacrifice” arrangement is practiced. Arrangements whereby the members’ salaries are reduced by the notional amount of the employee contribution, and all contributions are paid by the employer, are most common. **[figure 7.3]**

## **Contributions to schemes (chapter 8)**

1.31 Key results concerning the contributions made to schemes include:

- In private-sector defined-benefit schemes, both employee and employer contributions tend to have risen slightly since 2004. Both employees’ and employers’ contributions to defined-benefit schemes by tend to be higher than to defined-contribution schemes. **[figure 8.1]**
- Schemes open to new members tended to have lower contribution rates than closed schemes; this applied to both defined-benefit and defined-contribution schemes. **[table 8.3]**
- Over one-third of active employee members in defined-contribution schemes are in scheme where contributions vary depending on members’ ages, whereas just under one-sixth are in schemes where contributions are made at the same rate for all employees. **[figure 8.3]**
- A higher proportion of members pay additional voluntary contributions in defined-contribution schemes than in defined-benefit schemes, though scheme size seems to have little effect. **[table 8.5]**

## ***Very small schemes (chapter 9)***

1.32 Key results concerning very small schemes (those schemes with between 2 and 11 members) include

- There are around 170,000 members of such schemes, mainly active employee members. **[table 9.1]**
- Around two-thirds of very small schemes responding described themselves in 2005 as small self-administered schemes. **[paragraph 9.5]**
- Most members of very small schemes were accruing benefits on a defined-contribution basis, with contributions generally at a rate fixed under scheme rules. **[paragraphs 9.8 and 9.14]**
- A little over half of active employee members of very small schemes receive projections of their benefits annually, and about the same proportion are always sent the annual trustees' report and accounts. **[paragraphs 9.11 and 9.11]**
- Roughly three-quarters of active employee members of very small schemes are members of schemes which do not provide information to non-members showing the possible pension benefits of joining the scheme – generally these are schemes for senior executives. **[paragraph 9.12]**

## ***Schemes which are winding up (chapter 10)***

1.33 Key results concerning schemes which are winding up include

- There are around 344,000 members of such schemes; around 84,000 pensions in payment and around 260,000 with preserved pension entitlements. **[paragraph 10.5]**
- Around eight out of ten of the total members were in defined-benefit schemes. **[paragraph 10.8]**
- About half of members of winding-up schemes were in schemes where the sponsoring employer was insolvent. **[paragraph 10.9]**

## ***Changes to pension schemes since 2004 (chapter 11)***

1.34 Key results concerning the recent changes to schemes include

- The most common single change made to private-sector defined-benefit schemes was an increase in contribution rates for the employer. The second most common change was an increase in contribution rate for active employee members. **[table 11.1]**
- The most common single change made to defined-contribution schemes was to the range of investment choices offered. **[table 11.2]**
- About two-fifths of schemes, both defined-benefit and defined-contribution, are considering changes in the light of pension tax simplification. **[table 11.4]**
- The most common single planned change for defined-benefit schemes is a move to a career-average basis for calculating benefits. Approximately one-tenth of active employee members belong to schemes considering this change. **[table 11.5]**
- Just under a third of active employee members in defined-contribution schemes belong to schemes that have considered changing to a contract-based defined-contribution arrangement within the last year. **[table 11.6]**

## **On-line query builder**

1.35 A facility on the GAD website<sup>2</sup> called the “on-line query builder” allows researchers with specific queries to get tailored information from the database of survey responses. This should permit greater detail than that included in tables in the report to be produced where this is desired (subject to suppression of results where necessary to preserve confidentiality).

## **Future surveys**

1.36 In March 2004, the government asked Sir Derek Morris to undertake a wide-ranging review of the actuarial profession and of the Government Actuary’s Department. In accordance with the review’s terms of reference set by the government, the Morris review has focused on three main areas:

- the extent of choice and competition in the market for actuarial services;
- the current regulatory framework for members of the actuarial profession; and
- the role and future institutional status of GAD.

1.37 The final report of the Morris review was published on 16 March 2005. The review’s key conclusion in relation to GAD was that there was a strong and continuing role for an independent Government Actuary and department. However, the review recommended that, in order to achieve greater co-ordination and integration of pension scheme statistics, the occupational pension schemes surveys should be transferred away from GAD (paragraphs 9.98 to 9.123 of the final report). It was further recommended that the Department for Work and Pensions (DWP), the Pensions Regulator (TPR) and the Office for National Statistics (ONS) should consider the practicalities of transferring the surveys to either TPR or to ONS, although the review’s preference was to transfer the survey to the latter.

1.38 The government’s response to Sir Derek’s recommendations was included in the 2005 Budget Report. Ministers accepted, in principle, all of his recommendations, and considered that the report’s recommendations in relation to GAD helped to clarify the ongoing role of the Government Actuary and of GAD.

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<sup>2</sup> [http://www.gad.gov.uk/Pensions/Pension\\_scheme\\_surveys.htm](http://www.gad.gov.uk/Pensions/Pension_scheme_surveys.htm)

1.39 Over the past year, GAD has been working with HM Treasury, DWP, TPR and ONS to implement in the most effective way the recommendations of the Morris review in relation to the OPSS. The result of this work is that future surveys will be carried out by the Office for National Statistics. It is still expected that the surveys will be annual, and, for the time being at least, published to much the same timescale as in the past couple of years. GAD is working closely with the ONS to ensure a smooth hand-over of the work.



## Chapter 2 – Private-sector scheme numbers

- 2.1 This chapter summarises the survey's findings on the numbers of private-sector occupational pension schemes in the UK in 2005. This overall total is broken down into various different categories according to the various features of the schemes.
- 2.2 In the fairly near future definitive information about scheme numbers will become available from the registry being built up from scheme returns by the Pensions Regulator (TPR). The information in this survey on scheme numbers is heavily dependent on the Pension Schemes Registry inherited from the Occupational Pensions Regulatory Authority (Opra) by TPR when the latter body replaced the former in April 2005. The methodology of the survey is such that the total number of schemes reported here is the same as reported on the registry, less an adjustment in respect of schemes whose responses suggested that they should not have been on the registry as "live" occupational pension schemes in the first place. The split of schemes between different statuses and benefit types will be different, as this will depend on schemes' responses. For more details of the methodology, please see chapter 12.
- 2.3 It is estimated that there were 14,200 private-sector schemes in the United Kingdom with 12 or more members. In addition, there are around 55,000 very small schemes with fewer than 12 members each. Estimates of numbers of very small schemes are subject to considerable uncertainty; the scheme returns to the Pensions Regulator should in due course provide a clearer estimate of the total numbers.
- 2.4 Details of the ways to distinguish different types of schemes were given in chapter 1. As outlined in chapter 12, separate questionnaires were used for defined-benefit schemes (and sections of schemes), defined-contribution schemes (and sections of schemes), very small schemes (those with more than one and fewer than 12 members) and schemes which were winding up.

2.5 Table 2.1 shows the estimated number of UK private-sector schemes. The table is divided between single section schemes, and sectionalised schemes (those with more than one section). A scheme may have more than one section in order to offer different benefits to different groups of members, or possibly to segregate the rights of different groups of members in order to account better for the costs arising from those groups. Sectionalised schemes were classified as being open if *any* section of the scheme remained open to new members. They were only classified as being closed if *all* sections of the scheme were closed. As outlined in chapter 12, all schemes with fewer than 100 members were treated as single section schemes.

2.6 The figure for the total number of private-sector occupational schemes of 69,000 is very considerably lower than in the twelfth (2004) survey, where the figure was 95,900. This decrease is more than that between the eleventh (2000) and twelfth surveys; the 2000 estimate for the number of registered schemes was 105,000. As explained in paragraph 2.3, the estimated number of very small schemes, and therefore the estimated number of all schemes, is subject to considerable uncertainty, and therefore this change may not be significant. The estimates of scheme membership in chapter 3 show smaller changes, since members are concentrated in the small number of large and very large schemes. The number of schemes with 12 or more members is shown as having fallen from 16,300 to 14,200, a rather smaller proportionate fall than for all schemes. However, as stressed above, these survey-based results will shortly be superseded by data based on scheme returns, which will give an accurate count of all schemes.

Table 2.1 Private-sector schemes by size and status as at April 2005

(i) Schemes with one section only

<u>Scheme size</u> <u>(total membership)</u>	<u>Number of schemes</u>				<u>Total</u>
	<u>Open</u>	<u>Closed</u>	<u>Frozen</u>	<u>Winding up</u>	
10,000+	78	..	..	..	128
5,000 to 9,999	83	..	..	..	163
1,000 to 4,999	432	396	149	45	1,020
100 to 999	1,660	2,010	683	379	4,730
12 to 99	3,030	2,670	826	1,280	7,800
2 to 11	45,600	7,610	..	..	54,700
<b>Total</b>	<b>50,900</b>	<b>12,800</b>	<b>1,780</b>	<b>3,090</b>	<b>68,600</b>

(ii) Sectionalised schemes (those with more than one section)

<u>Scheme size</u> <u>(total membership)</u>	<u>Number of schemes</u>			<u>Total</u>
	<u>Open</u>	<u>Closed</u>	<u>Frozen</u>	
10,000+	76	..	..	88
5,000 to 9,999	63	..	..	67
1,000 to 4,999	130	..	..	145
100 to 999	95	..	..	95
12 to 99				
2 to 11				
<b>Total</b>	<b>364</b>	<b>..</b>	<b>..</b>	<b>395</b>

All winding-up schemes were treated as being single section schemes

(iii) All schemes

<u>Scheme size</u> <u>(total membership)</u>	<u>Number of schemes</u>				<u>Total</u>
	<u>Open</u>	<u>Closed</u>	<u>Frozen</u>	<u>Winding up</u>	
10,000+	154	59	..	..	216
5,000 to 9,999	146	82	..	..	230
1,000 to 4,999	562	411	..	..	1,170
100 to 999	1,760	2,010	683	379	4,830
12 to 99	3,030	2,670	826	1,280	7,810
2 to 11	45,600	7,610	115	1,380	54,700
<b>Total</b>	<b>51,300</b>	<b>12,800</b>	<b>1,780</b>	<b>3,090</b>	<b>69,000</b>

Table 2.2 Private-sector schemes by size and status as at 2004 (All UK schemes)

<u>Scheme size</u> <u>(total membership)</u>	<u>Number of schemes</u>				<u>Total</u>
	<u>Open</u>	<u>Closed</u>	<u>Frozen</u>	<u>Winding up</u>	
10,000+	139	..	..	..	195
5,000 to 9,999	124	..	..	..	216
1,000 to 4,999	582	..	..	..	1,220
100 to 999	2,300	..	..	498	4,980
12 to 99	3,880	2,770	1,940	1,110	9,700
2 to 11	46,900	14,300	..	..	79,600
<b>Total</b>	<b>54,000</b>	<b>19,500</b>	<b>16,600</b>	<b>5,800</b>	<b>95,900</b>

All tables: results which are based on fewer than 3 responses have been suppressed, as denoted by “..”  
Results may not sum to totals shown due to rounding  
Results are rounded to 3 significant figures

2.7 Table 2.3 divides table 2.1 (i) by benefit type (defined-benefit or defined-contribution) for schemes with a single section. It should be noted that schemes which were winding up, which number around 3,090, are excluded from this table.

Table 2.3 Single-section private-sector schemes by benefit type

(i) private-sector defined-benefit schemes with only one section

<u>Scheme size</u> <u>(total membership)</u>	<u>Number of schemes</u>			<u>Total</u>
	<u>Open</u>	<u>Closed</u>	<u>Frozen</u>	
10,000+	70	..	..	115
5,000 to 9,999	61	..	..	114
1,000 to 4,999	318	366	104	788
100 to 999	1,070	1,860	612	3,540
12 to 99	916	920	573	2,410
2 to 11	3,790	..	..	5,060
<b>Total</b>	<b>6,230</b>	<b>4,510</b>	<b>1,290</b>	<b>12,000</b>

(ii) private-sector defined-contribution schemes with only one section

<u>Scheme size</u> <u>(total membership)</u>	<u>Number of schemes</u>			<u>Total</u>
	<u>Open</u>	<u>Closed</u>	<u>Frozen</u>	
10,000+	8	..	..	12
5,000 to 9,999	22	..	..	48
1,000 to 4,999	114	..	..	189
100 to 999	592	..	..	806
12 to 99	2,110	..	..	4,110
2 to 11	41,800	..	..	48,300
<b>Total</b>	<b>44,700</b>	<b>8,290</b>	<b>485</b>	<b>53,500</b>

*Both tables: Results which are based on fewer than 3 responses have been suppressed, as denoted by “..”  
Results may not sum to totals shown due to rounding  
Results are rounded to 3 significant figures  
Excludes winding-up schemes*

2.8 Sectionalised schemes as shown in table 2.1(ii) generally have sections offering a mixture of defined-benefit and defined-contribution sections. The analysis of scheme membership in chapter 3 considers the membership of each section separately to produce estimates of the total numbers of members with benefits on defined-benefit or defined-contribution bases.

## Private-sector schemes by contracted-out status

- 2.9 Since 1978, it has been possible for a scheme to allow its active employee members to contract out of the additional component of the state pension (the state second pension, S2P, previously the state earnings related pension SERPS) provided that certain conditions are met. Becoming contracted out allows active employee members and their employers to pay lower National Insurance contributions. In return, active employee members give up some (or all) of the benefits they would otherwise have gained from S2P.
- 2.10 Those schemes responding that they were contracted out were further asked which of the three routes to becoming contracted out their scheme had taken. The three possible routes are:
- contracted-out salary-related scheme (COSRS), a route available to defined-benefit schemes, provided that the scheme offers benefits of at least a prescribed standard. This standard is known as the reference scheme test<sup>3</sup>;
  - contracted-out money-purchase scheme (COMPS), a route available to defined-contribution schemes since 1988, provided that the reduction in National Insurance contributions is paid into the money purchase account. The reduction in National Insurance contributions is often referred to as the contracting-out rebate and the assets derived from the investment of these rebates are known as protected rights; or
  - contracted-out mixed benefit scheme (COMBS). This route has been available since 1997 for schemes which wish to contract out some active employee members' rights on a COSRS basis and others on a COMPS basis.
- 2.11 Table 2.4 shows the numbers of private-sector schemes by whether contracted out and by route to contracting out.
- 2.12 The first part of table 2.4 gives the results for single-section schemes; the majority of schemes with more than 100 members are contracted out, whereas for schemes with between 12 and 99 members fewer than half are contracted out. Fewer than one in five schemes with 2 to 11 members are contracted out.

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<sup>3</sup> Prior to 1997, contracting out on a salary-related basis involved offering to each member benefits of at least a certain size, a guaranteed minimum pension or GMP.

2.13 The second part of table 2.4 shows the contracting-out routes used by sectionalised schemes. For a significant number of sectionalised schemes at least one section is not contracted out; in most of these schemes, the contracted-out sections were COSRS. A common benefit structure for schemes was to have a defined-benefit section contracted out as a COSRS alongside a not contracted-out defined-contribution section. In the three largest size bands, the proportion of schemes where all sections are contracted out lay between 32 per cent and 36 per cent. Schemes with a size of 100 to 999 members showed that all have at least 1 scheme section which is contracted out.

Table 2.4 Private-sector schemes by route to contracting out and size

(i) Schemes with one section

<u>Scheme size</u> <u>(total membership)</u>	<u>Number of schemes</u>					<u>Total</u>
	<u>COSRS</u>	<u>COMBS</u>	<u>COMPS</u>	<u>Not contracted-out</u>	<u>No Response</u>	
10,000+	93	..	..	..	..	128
5,000 to 9,999	90	..	18	45	..	163
1,000 to 4,999	654	..	89	234	..	1,020
100 to 999	2,550	71	190	1,800	118	4,730
12 to 99	2,160	..	1,030	4,610	..	7,800
2 to 11	1,380	..	..	..	..	54,700
<b>Total</b>	<b>6,920</b>	<b>2,660</b>	<b>1,330</b>	<b>53,700</b>	<b>3,910</b>	<b>68,600</b>

(ii) Sectionalised schemes (those with more than one section)

<u>Scheme size</u> <u>(total membership)</u>	<u>Number of schemes</u>			<u>Total</u>
	<u>COSRS, or some</u> <u>combination that is</u> <u>majority COSRS</u>	<u>COMBS, COMPS and</u> <u>combinations thereof</u>	<u>Schemes where one or</u> <u>more sections are not</u> <u>contracted out</u>	
10,000+	18	13	56	88
5,000 to 9,999	9	..	45	67
1,000 to 4,999	..	..	98	145
100 to 999	..	..	95	95
12 to 99				
2 to 11				
<b>Total</b>	<b>59</b>	<b>41</b>	<b>294</b>	<b>395</b>

*Both tables: Results which are based on fewer than 3 responses have been suppressed, as denoted by “..”  
Results may not sum to totals shown due to rounding  
Results are rounded to 3 significant figures*

## Chapter 3 – Private-sector scheme membership

- 3.1 All of the previous surveys by the Government Actuary have contained estimates of the membership of UK occupational pension schemes. In this chapter, we present the estimates for 2005, giving the estimates from the previous surveys wherever possible. The chapter also includes separate sections on the numbers of (active) employee members, the numbers of pensions in payment, and the numbers of preserved pension entitlements (deferred pensioners). Unlike previous surveys, the 2005 survey does not cover public-sector schemes; however, results are compared with those for private-sector schemes in previous surveys.
- 3.2 As for numbers of schemes, definitive information on numbers of members of schemes will be available shortly from the Pension Regulator's new registry, based on information submitted by all schemes on scheme returns. Such information must be more reliable than sample-based information, and therefore the results in this chapter should be regarded as interim, until replaced by those from the registry.
- 3.3 Table 3.1 gives the key statistics for total scheme membership and, for comparison, the equivalent statistics from earlier surveys.

Table 3.1 Active employee members, pensions in payment and preserved pension entitlements in private-sector pension schemes

(i) 2005 estimates and estimates from previous surveys

	millions					
	<u>1995</u>	<u>2000</u>	<u>2004</u>	<u>2004 standard errors</u>	<u>2005</u>	<u>2005 standard errors</u>
Active members	6.2	5.7	4.8	0.2	4.7	0.3
Pensions in payment	5.0	5.2	5.6	0.2	5.3	0.2
Preserved pension entitlements	5.2	5.2	7.1	0.2	6.4	0.2
<b>Total</b>	<b>16.4</b>	<b>16.1</b>	<b>17.5</b>		<b>16.4</b>	

(ii) differences between 2005 estimates and previous estimates

	millions			
	<u>2005 vs. 1995</u>	<u>2005 vs. 2000</u>	<u>2005 vs. 2004</u>	<u>2005</u>
Active members	-1.5	-1.0	-0.1	4.7
Pensions in payment	0.3	0.1	-0.3	5.3
Preserved pension entitlements	1.2	1.2	-0.7	6.4
<b>Total</b>	<b>0.0</b>	<b>0.3</b>	<b>-1.1</b>	<b>16.4</b>

*Both tables: Results may not sum to totals shown due to rounding*

3.4 As table 3.1 shows, it is estimated that in 2005 there were 4.7 million members of private-sector schemes, 0.1 million less than in 2004. Similarly, there appears to have been an overall decline in the numbers of pensions in payment and preserved pension entitlements.

3.5 This chapter now goes on to consider in more depth the numbers of active, deferred and pensioner members. The section on active employee members also includes an assessment of the eligibility criteria that employees must fulfil to join the scheme, and provides information about their pensionable ages.

## Active employee members of private-sector schemes

- 3.6 The active employee members of a scheme are those who, under the rules of the scheme, are currently accruing benefits. They are usually current employees of the sponsoring employer. It should be noted that there are no active employee members in schemes which are either frozen or winding up, as members of such schemes can no longer be accruing any benefits. It follows that all estimates relating to active employee members relate solely to schemes which are either open or closed.
- 3.7 As they are based on a sample survey, all of the estimates presented in this document are subject to a margin of error. A 95 per cent confidence interval can be calculated for the estimate of 4.68 million active employee members of schemes in the private sector. This confidence interval is from 4.17 million to 5.20 million members.

Table 3.2 Active employee members of private-sector schemes by size and benefit type

	millions		
<u>Scheme size (total membership)</u>	<u>Defined- benefit</u>	<u>Defined- contribution</u>	<u>Total</u>
10,000+	2.30	0.34	<b>2.64</b>
5,000 to 9,999	0.32	0.22	<b>0.55</b>
1,000 to 4,999	0.58	0.12	<b>0.70</b>
100 to 999	0.41	0.16	<b>0.57</b>
12 to 99	0.03	0.06	<b>0.09</b>
2 to 11	0.01	0.13	<b>0.14</b>
<b>Total</b>	<b>3.66</b>	<b>1.02</b>	<b>4.68</b>

*Results may not sum to totals shown due to rounding*

- 3.8 As table 3.2 shows, the active employee membership of schemes is concentrated in the small number of very large schemes, with just over a half of the active employee members belonging to schemes with 10,000 or more members in total. On average, schemes in this size band had 12,200 active employee members and a rather larger number of total members. By contrast, the 0.14 million active employee members of schemes with fewer than 12 members in total are split between around 55,000 schemes, representing an average of 2.5 active employee members for each scheme.

- 3.9 Table 3.2 also shows that the majority of active employee members are members of defined-benefit schemes, or defined-benefit sections of sectionalised schemes. When split by benefit type, 3.66 million were members of defined-benefit schemes or sections of schemes. The remaining 1.02 million active employee members were members of defined-contribution schemes or sections of schemes.
- 3.10 Whereas the active employee membership of defined-benefit schemes is concentrated in schemes with more than 10,000 members, the membership of defined-contribution schemes is more evenly distributed across the size bands. Nearly two-thirds of the active employee membership of defined-benefit schemes was in schemes with 10,000 or more members, whereas only one-third of the active employee membership of defined-contribution schemes was in such big schemes.

3.11 Table 3.3 shows how membership of defined-benefit and defined-contribution schemes and sections are divided across the size bands and by scheme status (open or closed only – frozen and winding-up schemes or sections cannot have active members).

Table 3.3 Active employee members of private-sector schemes by scheme size, benefit type and status

(i) open schemes (and open sections of schemes)

	millions		
<u>Scheme size</u> <u>(total membership)</u>	<u>Defined-</u> <u>benefit</u>	<u>Defined-</u> <u>contribution</u>	<u>Total</u>
10,000+	1.34	0.29	<b>1.64</b>
5,000 to 9,999	0.19	0.18	<b>0.37</b>
1,000 to 4,999	0.36	0.10	<b>0.47</b>
100 to 999	0.19	0.14	<b>0.33</b>
12 to 99	0.02	0.05	<b>0.07</b>
2 to 11	0.01	0.11	<b>0.12</b>
<b>Total</b>	<b>2.11</b>	<b>0.88</b>	<b>2.99</b>

(ii) closed schemes (and closed sections of schemes)

	millions		
<u>Scheme size</u> <u>(total membership)</u>	<u>Defined-</u> <u>benefit</u>	<u>Defined-</u> <u>contribution</u>	<u>Total</u>
10,000+	0.96	0.04	<b>1.00</b>
5,000 to 9,999	0.14	0.04	<b>0.18</b>
1,000 to 4,999	0.22	0.02	<b>0.24</b>
100 to 999	0.22	0.01	<b>0.23</b>
12 to 99	0.01	0.02	<b>0.03</b>
2 to 11	0.00	0.02	<b>0.02</b>
<b>Total</b>	<b>1.55</b>	<b>0.14</b>	<b>1.69</b>

*Both tables: Results may not sum to totals shown due to rounding*

3.12 As the above tables show, there were around 3.66 million active employee members of private-sector defined-benefit schemes and sections of schemes, and around 1.02 million active employee members of defined-contribution schemes and sections of schemes. The equivalent figures for 2004 were 3.59 million and 1.18 million respectively. The methodology makes it hard to calculate standard errors for these estimates, and therefore it is not possible to say whether these results over one year indicate significant shifts. In addition, the warning given in paragraph 3.2 should be borne in mind.

- 3.13 It is hard to compare numbers of members in schemes by status (open or closed) or in individual size bands from year to year, as schemes may change status – in particular move from being open to being closed – or change size band between years. So, while the tables show that there has been a decrease in active employee membership of open defined-contribution schemes (to 0.88 million, from 1.00 million in 2004), no great reliance should be placed on this. The active employee membership of closed defined-contribution schemes has also decreased, down by almost 0.04 million from 2004, to 0.14 million.
- 3.14 Of the 1.34 million active employee members in open defined-benefit schemes with more than 10,000 members, over half were in the five largest schemes. Some of these were formerly in the public sector, whilst others still are; these schemes are counted as private-sector schemes for the purposes of the survey for the reasons outlined in chapter 1, paragraphs 1.13 – 1.14.

## Changes in scheme membership, 2004 - 2005

3.15 In addition to their active employee membership at April 2005, schemes were asked for the number of members entering and leaving during the twelve months ending on that date. Table 3.4 gives the results of this question for private-sector schemes; as before, numbers in the defined-benefit and defined-contribution columns relate to both schemes and sections of schemes of that benefit type. The retirements category includes retirements for all reasons, whether before or at normal pension age, or due to ill-health.

Table 3.4 New entrants to and exits from private-sector schemes, by benefit type and status

	thousands			
	<u>Defined-benefit</u>		<u>Defined-contribution</u>	<u>Total</u>
	<u>Open</u>	<u>Closed</u>	<u>all schemes</u>	<u>all schemes</u>
<b>Total entrants</b>	302	-	209	511
Exits				
Retirements	47	40	5	92
Left, with preserved pension entitlement	152	125	97	374
Left, with no benefit	85	14	51	150
Deaths	2	5	1	8
Other exits (reason not given)	6	20	5	31
<b>Total exits</b>	293	204	158	655
<b>Net increase (decrease)</b>	<b>9</b>	<b>(204)</b>	<b>51</b>	<b>(144)</b>

*Results may not sum to totals shown due to rounding  
Includes schemes with more than 12 members only*

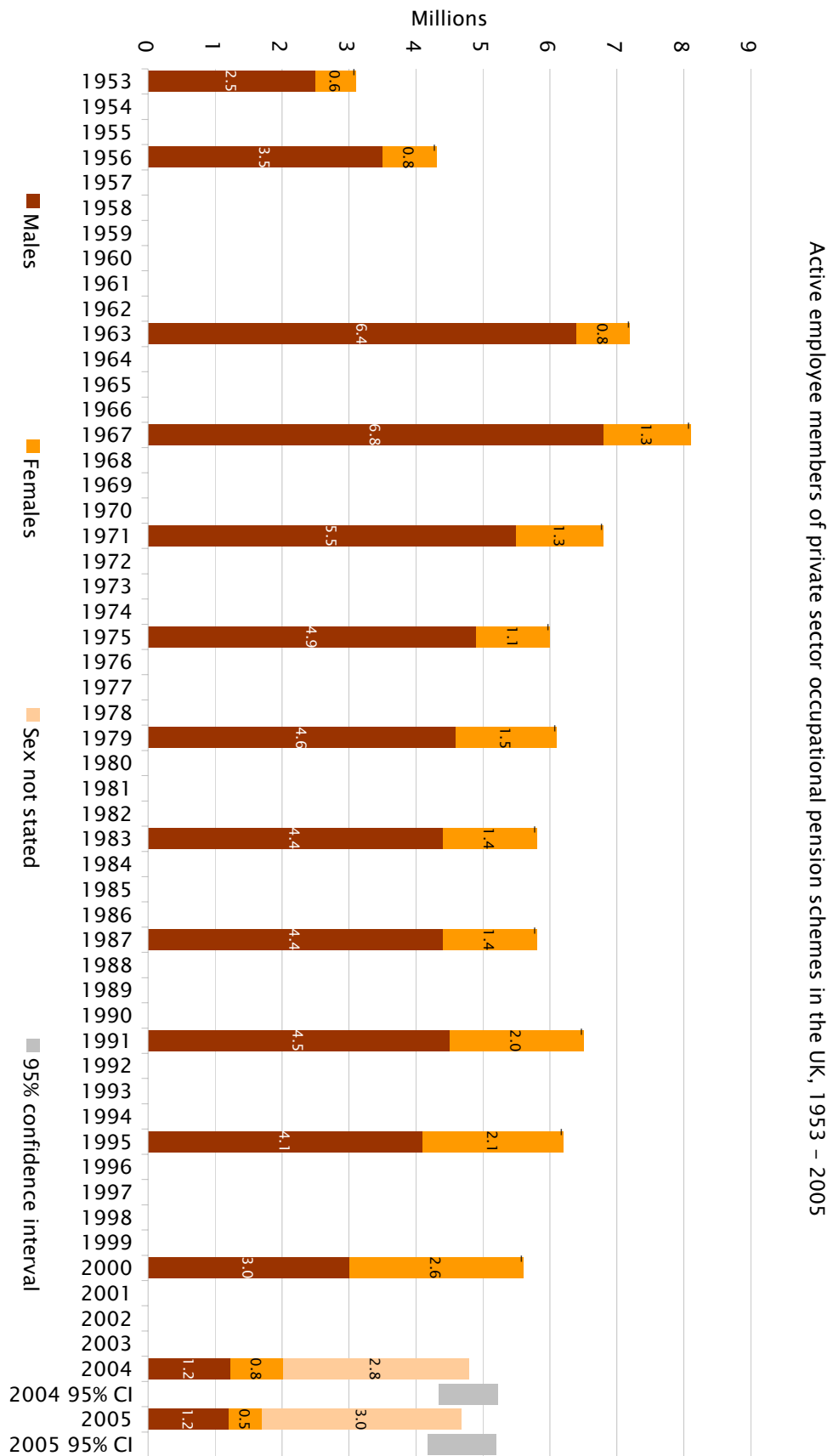
3.16 As with the number of active employee members, we can estimate a 95 per cent confidence interval for the numbers of new entrants and exits. The estimated total number of entrants to schemes in 2005 was 511,000, with a 95 per cent confidence interval from 438,000 to 584,000. The number of exits is estimated to have been 655,000, with a 95 per cent confidence interval from 560,000 to 750,000.

3.17 The annual number of entrants for open defined-benefit schemes in the private sector represents around 14 per cent of scheme membership, whilst the net annual change represents less than 1 per cent of membership. The annual number of new entrants to defined-contribution schemes represents around a quarter of the total membership of open defined-contribution schemes, and the number of exits represents around 15 per cent of the membership of all defined-contribution schemes.

## History of active employee membership of private-sector schemes

- 3.18 Figure 3.1 shows the active employee membership of UK schemes along with the history of this statistic since 1953.
- 3.19 Since the Government Actuary's first survey in 1953, there has been an increase in the number of active employee members of private-sector occupational pension schemes. There was a sizeable increase between 1953 and 1967, followed by an intermittent decline thereafter. There has been a steady decline in active employee membership of private-sector schemes since 1991.
- 3.20 It should be borne in mind that, over such a long period of time, the definition of "public sector" and "private sector" has changed considerably. This in itself can account for some of the variability between sectors over the years; for example, since 2000, there have been a number of organisations that have been re-classified from the public sector to the private sector such as the Post Office, the BBC and the Bank of England. It follows, therefore, that the decline in membership of schemes sponsored by private-sector employers (as opposed to private-sector schemes as defined for the survey) will have been even steeper since 1991.
- 3.21 As in previous surveys, schemes were also asked to give the split by sex of their active employee membership as at 6 April 2005. This question was not well-answered; under half the respondents were able to report separately numbers of males and females. In contrast, almost every respondent was able to give the total number of active employee members in their scheme.

Figure 3.1 Active employee members of private-sector schemes by sex, 1953 - 2005



## Active employee membership of private-sector schemes by contracted-out status

3.22 The final section of chapter 2 gave estimates of the number of private-sector schemes that were contracted out in 2005. Table 3.5 presents the estimated numbers of active employee members in private-sector schemes which were contracted out. Of the members of private-sector contracted-out mixed benefit schemes (COMBS), around 94 per cent were in defined-benefit sections of those schemes.

Table 3.5 Active employee members of private-sector schemes by size and route to being contracted out

<u>Scheme size</u> <u>(total membership)</u>	<u>Non-contracted</u> <u>out schemes</u>	<u>Contracted out schemes</u>				<u>Total</u>	<u>No response</u>
		<u>COSRS</u>	<u>COMBS</u>	<u>COMPS</u>	<u>Total</u>		
10,000+	0.36	1.95	0.26	0.06	<b>2.26</b>	0.01	
5,000 to 9,999	0.20	0.25	0.04	0.05	<b>0.34</b>	0.01	
1,000 to 4,999	0.16	0.44	0.01	0.10	<b>0.55</b>	0.00	
100 to 999	0.21	0.29	0.02	0.04	<b>0.35</b>	0.01	
12 to 99	0.06	0.03	0.00	0.01	<b>0.03</b>	0.00	
2 to 11	0.12	0.00	0.01	0.00	<b>0.01</b>	0.01	
<b>Total</b>	<b>1.11</b>	<b>2.96</b>	<b>0.32</b>	<b>0.26</b>	<b>3.54</b>	<b>0.04</b>	

*Results may not sum to totals shown due to rounding*

3.23 In 2005 about 76 per cent of active employee members in the private sector were in a contracted-out scheme. As table 3.6 opposite shows, this proportion is slightly lower than the historical figures recorded since 1979, which have varied between 78 per cent and 84 per cent.

3.24 Whereas around 95 per cent of active employee members of private-sector defined-benefit schemes were contracted out, only around 10 per cent of active employee members of defined-contribution schemes were contracted out. The proportion of active employee members contracted out in defined-benefit schemes is very similar to that reported for 2004 in the previous survey: for defined-contribution schemes it is rather lower, but the result is based on a small number of responses and is therefore subject to a high margin of error.

3.25 For both defined-benefit and defined-contribution schemes, the proportion of active employee members contracted out is generally higher for larger schemes than for smaller schemes, as might be expected from table 2.4.

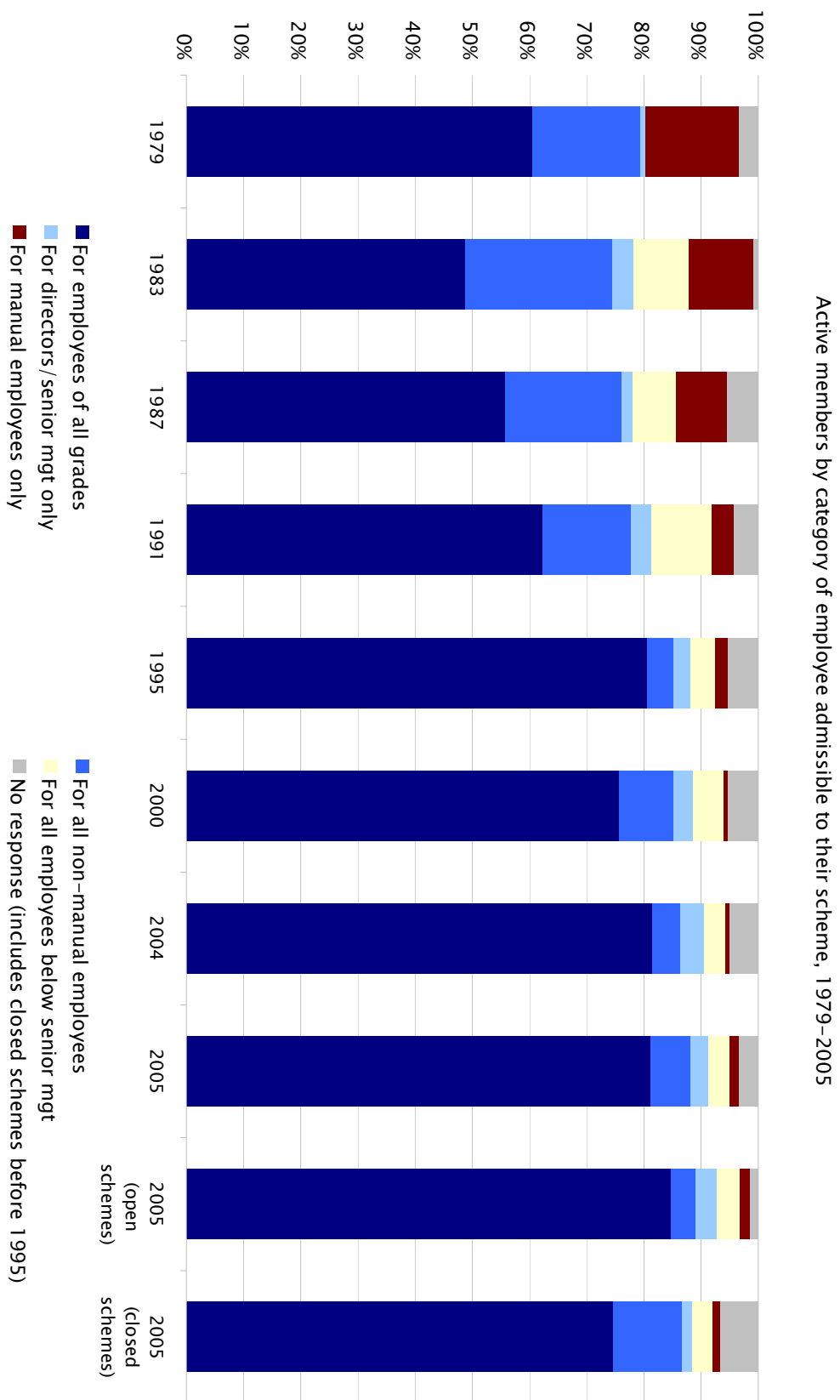
Table 3.6 Percentage of active employee members of private-sector schemes by the contracted-out status of their schemes, 1979-2005

per cent						
<u>Year</u>	<u>Proportion of active members in contracted-out schemes</u>	<u>Defined- benefit</u>	<u>Defined- contribution</u>	<u>COSRS</u>	<u>COMBS</u>	<u>COMPS</u>
2005	76	74	2	64	7	6
2004	79	72	7	63	11	5
2000	83					
1995	80					
1991	84					
1987	78					
1983	78					
1979	79					

## Conditions for membership based on category of employee

- 3.26 It is a common feature of schemes that they place restrictions on who is eligible to join the scheme. This section considers the various ways in which membership of a scheme can be restricted to certain categories of employee, and provides estimates of how many active employee members are in schemes with these restrictions.
- 3.27 Some private-sector schemes were established for the benefit of one group of employees within an organisation, as opposed to being for the benefit of all employees. For example, a company might establish a scheme solely for its directors and senior executives, with a separate scheme being set up for all other employees.
- 3.28 Schemes were therefore asked whether admission was dependent in any way upon the grade or rank of the individual. Schemes which are now closed were asked for the criteria which applied when they were last open to new members.
- 3.29 For the purposes of the survey, employees were divided into three categories:
- works, or manual employees;
  - staff, or non-manual employees; and
  - directors and/or senior executives.
- This led to seven possible permutations of answers, including the answer that the scheme was for all three categories of employee.
- 3.30 Figure 3.2 shows a comparison between estimates for 2005 and previous surveys for the proportion of the total active employees reported to be eligible for the membership according to different criteria. The figure also separates the estimate for 2005 into estimates for both open and closed schemes.
- 3.31 As figure 3.2 shows, the 2005 results show little change from 2004; the long-term trend still appears to be that a decreasing proportion of active employee members are in schemes which restrict membership according to the employee's grade. This is particularly the case for schemes solely for manual employees, of which there have been very few in recent surveys.

Figure 3.2 Active employee members by category of employee admissible to their scheme, 1979 - 2005



## Automatic membership for new employees (auto-enrolment)

3.32 Although it is not permitted for schemes to make membership compulsory, it is possible for any scheme to make all new employees members of their pension scheme, provided that the employees are given the right to opt out of the scheme. This practice is often called “auto-enrolment”.

3.33 All open schemes with more than 12 members were asked whether new employees were made members of the scheme automatically (provided that they satisfied its eligibility criteria). Table 3.7 gives the 2005 estimate for the percentage of active employee members in open schemes where new employees are automatically made members. The table also shows the same figures for the previous three surveys, as at 1995 and 2000.

Table 3.7 Percentage of active employee members of private-sector schemes by whether membership of their scheme is automatic for all, some or no new employees (who meet any eligibility criteria)

	per cent of those responding					
	<u>1995</u> <u>Total</u>	<u>2000</u> <u>Total</u>	<u>2004</u> <u>Total</u>	<u>2005</u> <u>Defined-benefit</u>	<u>2005</u> <u>Defined-contribution</u>	<u>2005</u> <u>Total</u>
Yes, all	43%	43%	41%	54%	31%	48%
Yes, some	7%	14%	22%	15%	2%	12%
No	50%	43%	37%	31%	67%	40%

*Includes schemes with 12 or more members only*

*Results may not sum to totals shown due to rounding*

3.34 All open schemes with more than 12 members were also asked what proportion of those eligible for membership had chosen to become members. This question was less well answered than many others in the survey. The results for the 40 per cent of the respondents who answered this question are presented in table 3.8 opposite. The results are split as in table 3.7, that is, by whether or not some, all or no new employees are automatically made members.

Table 3.8 Percentage of eligible employees who were active employee members of the scheme by whether membership is made automatic or not

	per cent of those responding					
	<u>1995</u> <u>Total</u>	<u>2000</u> <u>Total</u>	<u>2004</u> <u>Total</u>	<u>2005</u> <u>Defined-benefit</u>	<u>2005</u> <u>Defined-contribution</u>	<u>2005</u> <u>Total</u>
Yes, all	n/a	90%	90%	89%	90%	89%
Yes, some	n/a	75%	74%	77%	..	73%
No	n/a	54%	62%	66%	53%	59%

*Includes open schemes only. Includes schemes with 12 or more members only*

*Results which are based on fewer than 3 responses have been suppressed, as denoted by “..”*

*Results may not sum to totals shown due to rounding*

3.35 Table 3.8 indicates that where membership is automatic, around nine out of ten employees are active employee members. Where it is not automatic, a lower proportion of employees (around seven out of ten) are active employee members.

3.36 Schemes which did not practice auto-enrolment for new employees were asked about their practice in reminding potential members of their rights to join the scheme. Of schemes providing comments about this, a considerable number sent reminders on a regular basis, often annually. Other approaches identified included reminding members at the end of a probationary period of employment or towards the end of a set period after starting employment when joining the pension scheme was permitted. A couple of schemes mentioned “amnesties”, which was taken to refer to an opportunity for non-members to join even if scheme rules generally required joining within a set period from start of employment.



## Pensioner members in private-sector schemes

- 3.37 Open, closed, frozen or winding-up schemes can have pensioner members. Whilst such members are mostly former employees of the organisation, the widows, widowers and other dependants of former employees are also classified as pensioner members for the purposes of this survey.
- 3.38 It is possible for an individual to receive a pension from more than one scheme, following successive (or even simultaneous) membership of different schemes or as a former employee member of one scheme and as the dependant of a former employee member of a second scheme. As a result, the estimates presented in this section are estimates of the number of pensions in payment from UK occupational pension schemes, rather than estimates of the total number of pensioners in the country receiving benefits from occupational pension schemes.
- 3.39 The estimated total number of private-sector pensions in payment in 2005 is 5.33 million, with a 95 per cent confidence interval from 4.93 million to 5.72 million.
- 3.40 Pensions in payment relate disproportionately to the largest schemes, as smaller schemes often seek to “buy out” pensions in payment with annuities from insurance companies, thereby relieving themselves of the longevity risk.
- 3.41 Table 3.9 breaks down further the estimates, in order to show the pensions in payment by scheme size band, and also by type of recipient. The survey results reflect an adjustment to the data, as one large scheme appeared to have experienced a very large reduction of pensioner members in a single year (which, with rating up, led directly to a fall of 200,000 in the estimated overall number of pensions in payment). We attributed this to a restructuring of the scheme which resulted in many pensioners being transferred to a new section on which data had not been collected (because of the limit of sending questionnaires only to 4 sections of any scheme). The results were adjusted using figures for the number of pensioners in the scheme from published sources.

Table 3.9 Pensions in payment by type of pensioner, sex and scheme size band

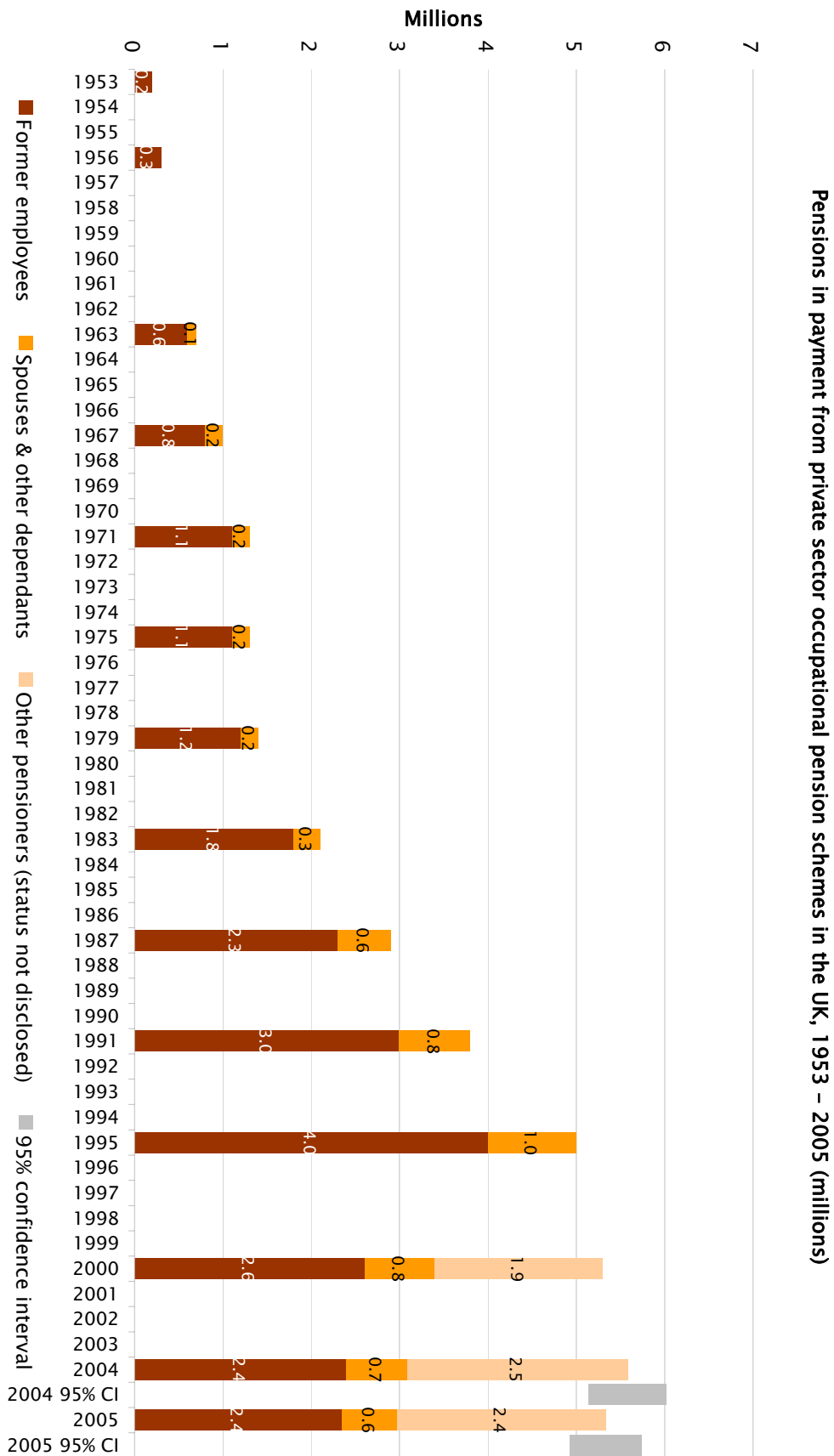
<u>Scheme size</u> <u>(total membership)</u>	<u>Former employees</u>			<u>Total</u>	<u>Spouses and</u> <u>all other</u> <u>dependants</u>	<u>Other pensioners</u> <u>(status not</u> <u>disclosed)</u>	<u>Total</u>
	<u>Male</u>	<u>Female</u>	<u>Sex not</u> <u>stated</u>				
10,000+	0.83	0.32	0.74	1.88	0.54	1.52	<b>3.94</b>
5,000 to 9,999	0.09	0.04	0.02	0.15	0.04	0.24	<b>0.43</b>
1,000 to 4,999	0.07	0.03	0.05	0.14	0.03	0.44	<b>0.61</b>
100 to 999	0.09	0.04	0.00	0.14	0.02	0.13	<b>0.29</b>
12 to 99	0.02	0.01	0.00	0.03	0.00	0.01	<b>0.04</b>
2 to 11	0.00	0.00	0.00	0.00	0.00	0.02	<b>0.02</b>
<b>Total</b>	<b>1.10</b>	<b>0.44</b>	<b>0.81</b>	<b>2.35</b>	<b>0.62</b>	<b>2.36</b>	<b>5.33</b>

millions

*Results may not sum to totals shown due to rounding*

- 3.42 Almost all of the pensions in payment in 2005 were paid from defined-benefit schemes, or defined-benefit sections of schemes. It is estimated that fewer than 100,000 were paid from open, closed and frozen defined-contribution schemes (and sections of schemes). There are two main reasons for this – defined-contribution schemes tend to be more recently established (see paragraph 2.22 of the 2004 survey) and therefore fewer members have reached retirement age, and many defined-contribution schemes buy annuities for pensioners from insurance companies (see paragraph 5.4 of the 2004 survey).
- 3.43 The overall total of 5.33 million for private-sector pensions in payment is a decrease of around 0.25 million from the 2004 estimate, but slightly higher than the 2000 estimate of 5.2 million.
- 3.44 These estimates show a change from the long term trend of an increasing number of pensions in payment. Figure 3.3, opposite, illustrates this growth over time, showing the estimates from all GAD surveys since 1953.
- 3.45 Allowing for the uncertainty arising from potential error ranges around the results in each years' surveys, it seems that the number of private-sector pensions-in-payment (excluding insured pensions) may have stabilised, reflecting the greater maturity of schemes.

Figure 3.3 Number of pensions in payment, by category of recipient, 1953 – 2005





## Members with preserved pension entitlements in private-sector schemes

- 3.46 When active employee members leave the employment of the scheme's sponsoring employer, they usually have a choice of what to do with the benefits accrued in the scheme. The default position for members with more than two years' service is a preserved pension entitlement, where the rights remain in the scheme and a pension comes into payment at normal pension age. The member is then sometimes known as a "deferred pensioner" or "deferred member" of the scheme. It is generally possible to take a transfer payment into another pension arrangement in place of these rights.
- 3.47 As with pensioner members, it is possible for one individual to have preserved pension entitlements in more than one scheme, and therefore the estimates do not represent the number of individuals with preserved pension entitlements.
- 3.48 The estimated total number of private-sector preserved pension entitlements in 2005 is 6.43 million, as shown in table 3.10, with a 95 per cent confidence interval from 6.03 million to 6.82 million.
- 3.49 All schemes were asked for their number of pension credit members (members with pension rights established after pensions sharing on divorce - see paragraph 3.54). However, responses indicated that, as at April 2005, the number of pension credit members was very small and so these figures are therefore not shown separately in table 3.10.

Table 3.10 Preserved pension entitlements by type of entitlement, sex and size band

<u>Scheme size</u> <u>(total membership)</u>	<u>Former employees</u>				<u>Other preserved</u> <u>entitlements (status</u> <u>not disclosed)</u>	<u>Total</u>
	<u>Male</u>	<u>Female</u>	<u>Sex not</u> <u>stated</u>	<u>Total</u>		
10,000+	0.61	0.37	2.64	3.62		3.62
5,000 to 9,999	0.12	0.07	0.47	0.66		0.66
1,000 to 4,999	0.22	0.12	0.82	1.16		1.16
100 to 999	0.21	0.11	0.49	0.81		0.81
12 to 99	0.06	0.03	0.08	0.16		0.16
2 to 11	0.00	0.00	0.01	0.01		0.01
<b>Total</b>	<b>1.21</b>	<b>0.70</b>	<b>4.51</b>	<b>6.42</b>	<b>0.00</b>	<b>6.43</b>

*Results may not sum to totals shown due to rounding*

3.50 The majority of preserved pension entitlements are held in defined-benefit schemes. Table 3.11 shows how entitlements are split between defined-benefit and defined-contribution schemes.

Table 3.11 Preserved pension entitlements in private-sector schemes by benefit type, scheme status and size band

<u>Scheme size</u> <u>(total membership)</u>	<u>Defined-benefit</u>			<u>Defined-contribution</u>			millions
	<u>Open</u>	<u>Closed</u>	<u>Frozen</u>	<u>Open</u>	<u>Closed</u>	<u>Frozen</u>	<u>Total</u>
10,000+	1.37	1.86		0.14	..	..	<b>3.61</b>
5,000 to 9,999	0.21	0.24	0.02	0.09	..	..	<b>0.66</b>
1,000 to 4,999	0.24	0.46	0.19	0.13	..	..	<b>1.08</b>
100 to 999	0.15	0.31	0.13	0.06	..	..	<b>0.68</b>
12 to 99	0.01	0.02	0.02	0.04	..	..	<b>0.12</b>
2 to 11	..	..	..	..	..	..	<b>0.01</b>
<b>Total</b>	<b>1.99</b>	<b>2.88</b>	<b>0.36</b>	<b>0.47</b>	<b>0.25</b>	<b>0.22</b>	<b>6.17</b>

*Results may not sum to totals shown due to rounding*

*Results which are based on fewer than 3 responses have been suppressed, as denoted by “..”*

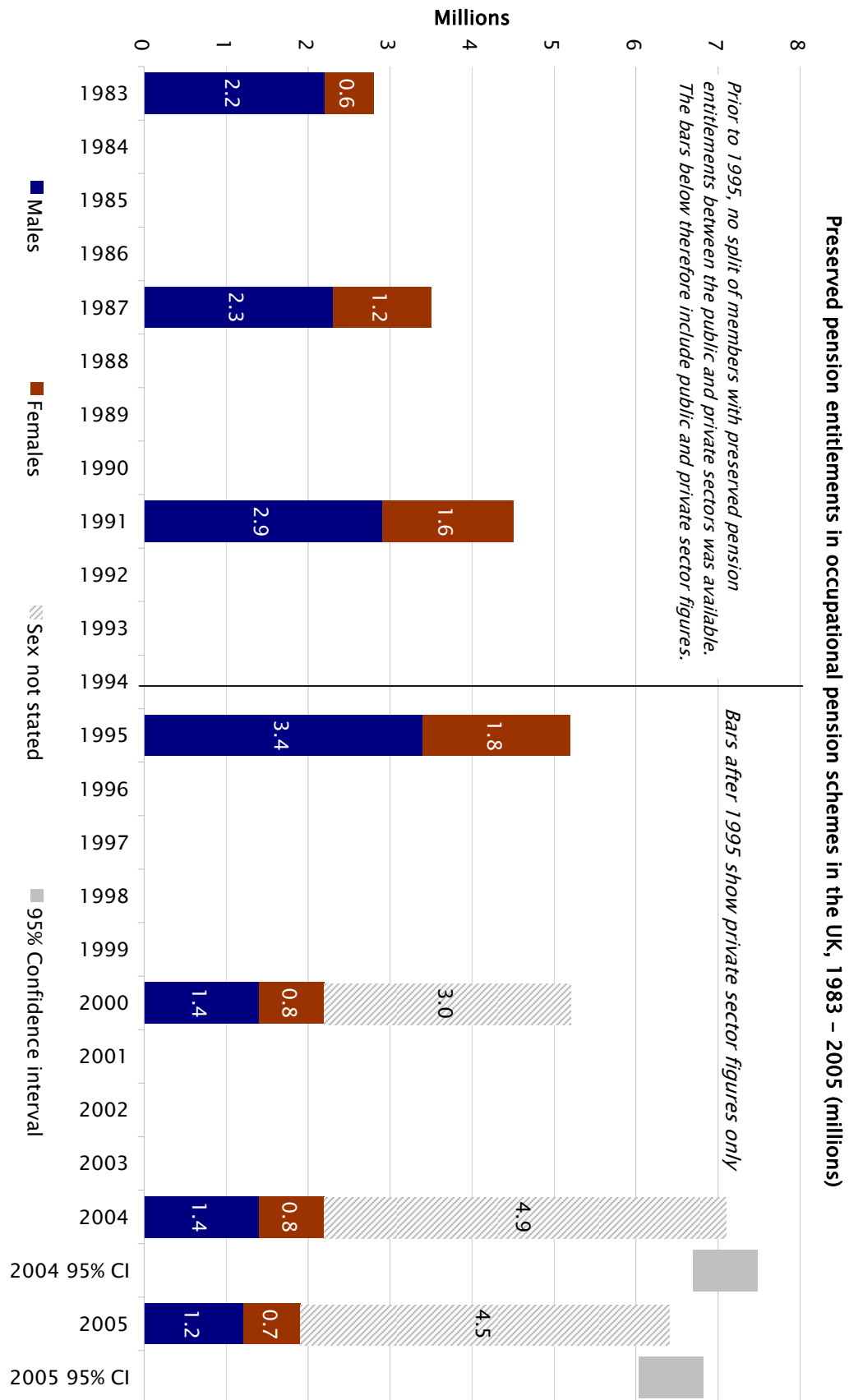
*Excludes schemes which were winding up*

3.51 A comparison of the total numbers in tables 3.10 and 3.11 suggests that there were around 260,000 preserved pension entitlements in schemes which were winding up. These are concentrated in schemes with fewer than 1,000 members.

3.52 The overall total of 6.43 million private-sector preserved pension entitlements is a substantial decrease on the 2004 figures, but is still higher than the figure shown in 2000. This difference may be attributed to sampling error (see paragraph 3.48).

3.53 Figure 3.4 shows the trend of preserved pension entitlements over time, giving the estimates from all surveys since 1983. As with figure 3.1, each total is divided into male and female members.

Figure 3.4 Number of preserved pension entitlements in schemes, 1983 – 2005



## Treatment of benefits on divorce

3.54 When a member is divorced, a pension sharing order is sometimes made, which entitles the member's former spouse to a share of the member's benefits. The former spouse would then have their own rights in the scheme, and would be known as a pension credit member.

3.55 Schemes with 12 or more members were asked for their policy towards this group of members, that is, whether such members were:

- always transferred out of the scheme;
- always kept in the scheme; or
- allowed to decide between these two options.

The results are shown in table 3.12.

Table 3.12 Active employee members of private-sector schemes, by benefit type and scheme's approach to entitlements granted by pension sharing orders

<u>Approach taken</u>	<u>Defined-benefit</u>	<u>Defined-contribution</u>	millions
Entitlements are always transferred out	2.35		0.46
Entitlements are always kept in the scheme	0.16		0.06
Pension credit members are offered a choice	0.95		0.17
No response	0.19		0.21
<b>Total</b>	<b>3.65</b>		<b>0.89</b>

*Results may not sum to totals shown due to rounding  
Includes schemes with 12 or more members only*

## Chapter 4 – Scheme administration

- 4.1 The 2003 review of the Government Actuary's occupational pension schemes surveys recommended that surveys should be carried out every year. However, the subject matter should vary each year, following a three-year cycle. Previous practice, up to the 2000 survey, was to carry out the survey every four years and to cover a very wide range of subjects in each survey, including benefits, scheme finances, governance and communications with members. GAD has also carried out an ad hoc survey in 1997 covering scheme administration expenses.
- 4.2 The 2004 survey focussed on scheme benefits, which had formed an important part of all previous surveys. Given that administration expenses had last been surveyed in 1997 it was agreed that this should be a major focus of the 2005 survey.
- 4.3 Different schemes have very different approaches to administration and this can lead to different levels of administration expenses. In addition, even for schemes with the same basic approach to administration, setting different standards for how well administration functions are performed can have a material effect on the administration costs. For this reason the 2005 survey covers approaches to administration and standards set for administration, as well as administration expenses.

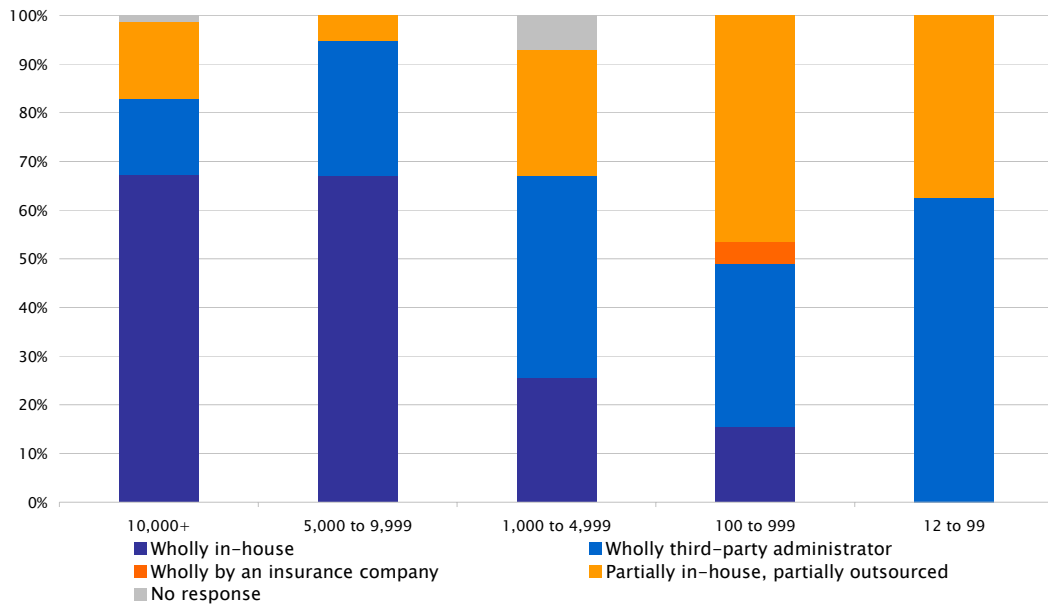
## Overall approach to scheme administration

- 4.4 Occupational pension schemes are set up by employers for their employees. They have boards of trustees who are legally responsible for their operation. However, day-to-day aspects of administration – maintaining membership records, collecting contributions, calculating awards of benefits, producing annual accounts for the scheme and so forth – are potentially time-consuming and specialised. The trustees are unlikely to be able to undertake these tasks themselves; they have neither the time nor the necessarily specialist skills required. In the first instance the tasks may fall to staff within the sponsoring employer’s organisation. However such staff may also not have the time or relevant skills. Therefore many pension schemes find it effective to outsource their administration – by this we mean that the day-to-day administration is performed by people or organisations other than people employed by the sponsoring employer or directly by the trustees.
- 4.5 The two main possibilities for obtaining pension scheme administration outside the sponsoring employer’s organisation are specialist third party pension administrators (TPAs) or insurance companies. Insurance companies often provide a package of services to pension schemes, whereby they provide administration services, investment for the scheme’s funds, and, in some cases, insurance against some of the demographic risks run by schemes. Schemes which take advantage of such a “bundle” of services are called insured schemes (though in some cases the insurance company may itself outsource to a third party administrator the administration of schemes it has insured).
- 4.6 Third party administrators offer a range of services, from day-to-day maintenance of membership records, including accounting for contributions where necessary and calculating awards of benefit, to supporting all aspects of scheme administration and governance. Some schemes choose to buy only some administration services from the TPA and perform other functions in-house. In some cases schemes have some functions performed by an insurance company, others by a TPA, while retaining some aspects in house.

- 4.7 Table 4.1 overleaf aims to show how pension schemes of different benefit types, sizes and statuses choose to organise their administration. The table counts numbers of scheme sections by administration method adopted. This is because schemes can adopt different administration methods for different sections (for instance, an established defined-benefit scheme may set up a new defined-contribution section, but may not have the specialist skills needed to run such a section). Hence the universe for figure 4.1 is not the same as the total number of schemes (with 12 or more members, excluding winding-up schemes) in tables in chapter 2.
- 4.8 Figure 4.1 shows that being administered wholly in-house is generally only an option considered by large and very large schemes or sections of schemes. Medium-sized schemes and sections, whether defined-benefit or defined-contribution, tend most often to be administered in whole or in part by third party administrators. Administration by an insurance company is most common amongst very small schemes.

Figure 4.1 Schemes by size and approach to administration

(i) defined-benefit open schemes



(ii) defined-benefit closed schemes

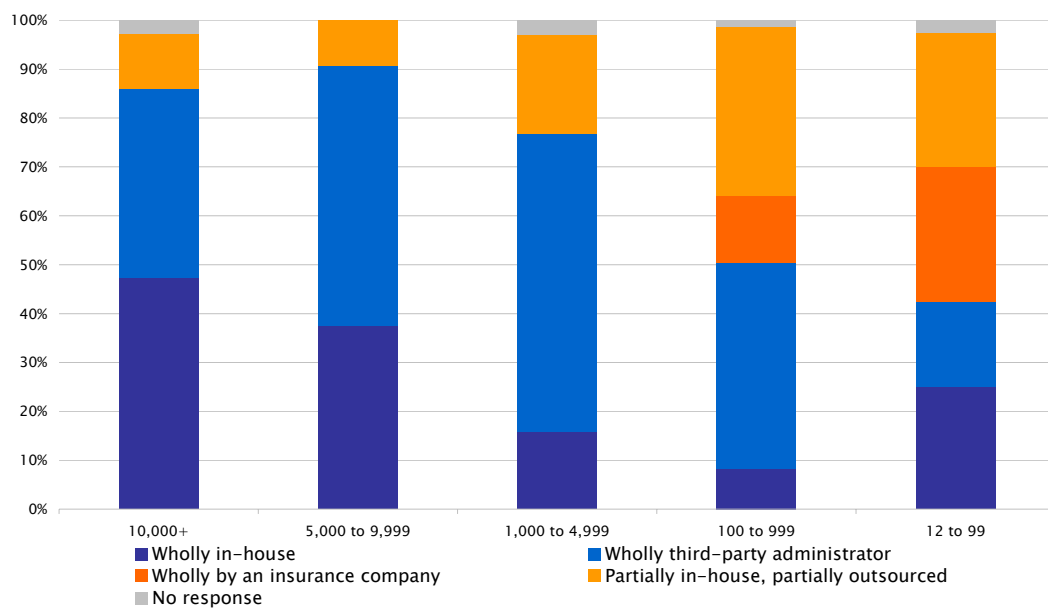
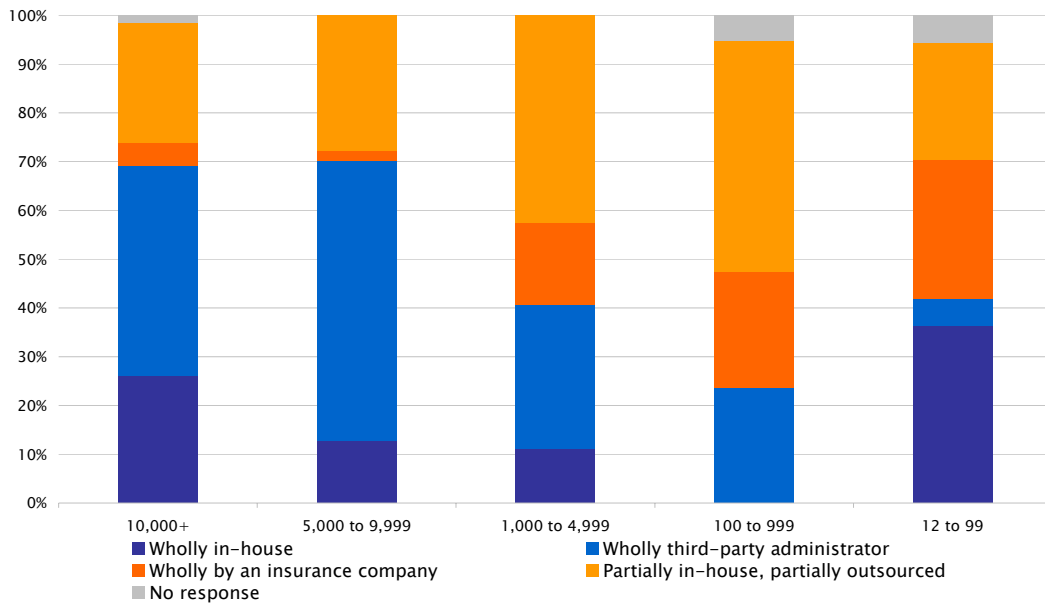


Figure 4.1 (cont) Schemes by size and approach to administration

(iii) defined-contribution schemes



4.9 Schemes were also asked if they were insured, in the technical sense of having as an insurance policy, rather than a managed fund, as their sole long-term investment medium, and, if so, whether the same insurance company also provided administration services. The results, split by scheme benefit type and size, are given in table 4.1.

Table 4.1 Private-sector schemes by benefit type and size, and whether insured or not

Benefit type	Scheme size (total membership)	Number of scheme sections			Scheme is not insured	No response	Total
		Scheme is insured and insurer is administrator	Scheme is insured but insurer is not administrator	Scheme is insured but not known if insurer is administrator			
Defined-benefit	10,000+				79	32	111
	5,000 to 9,999				81	20	101
	1,000 to 4,999		..	..	531	271	831
	100 to 999	332	..		2,290	571	3,270
	12 to 99	..	..		964	367	2,180
Defined-contribution	10,000+	6	..		53	..	64
	5,000 to 9,999		..		84	..	91
	1,000 to 4,999	..			176	..	236
	100 to 999	308	..	..	426	95	900
	12 to 99	1,170	..		2,110	482	3,880
<b>Total</b>		<b>2,570</b>	<b>391</b>	<b>39</b>	<b>6,800</b>	<b>1,860</b>	<b>11,660</b>

*Does not include schemes or sections which are administered wholly in-house*

*Includes only schemes with 12 or more members and which are not winding up*

*Results which are based on fewer than 3 responses have been suppressed, as denoted by “..”*

*Results may not sum to totals shown due to rounding. Results are rounded to 3 significant figures*

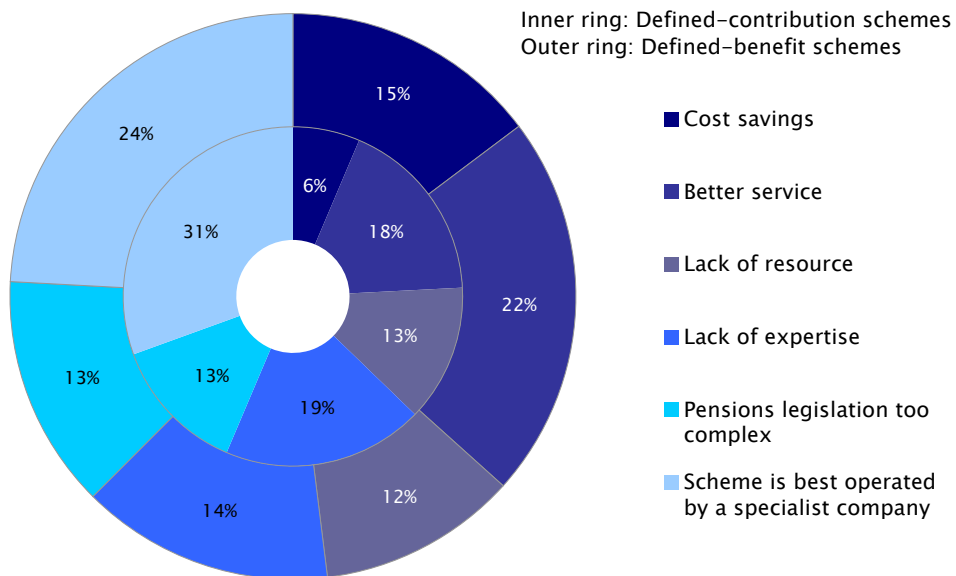
4.10 As noted from figure 4.1, having services provided by an insurance company is much more common for small schemes than for large schemes. Since small schemes are more likely to operate on a defined-contribution basis than large schemes, this in turn implies that defined-contribution schemes are more likely to be insured than defined-benefit schemes. Almost all schemes which are insured, in that an insurance policy forms their only long-term investment, also use the same insurance company as administrator.

## Third party administrators – appointment and review

4.11 Schemes may have many different reasons for choosing a third party administrator as opposed to running a scheme in-house. Schemes were asked to rank six possible reasons. The results are shown in figure 4.2.

4.12 No single reason predominated, with all the possible reasons playing a part in the decisions of some schemes.

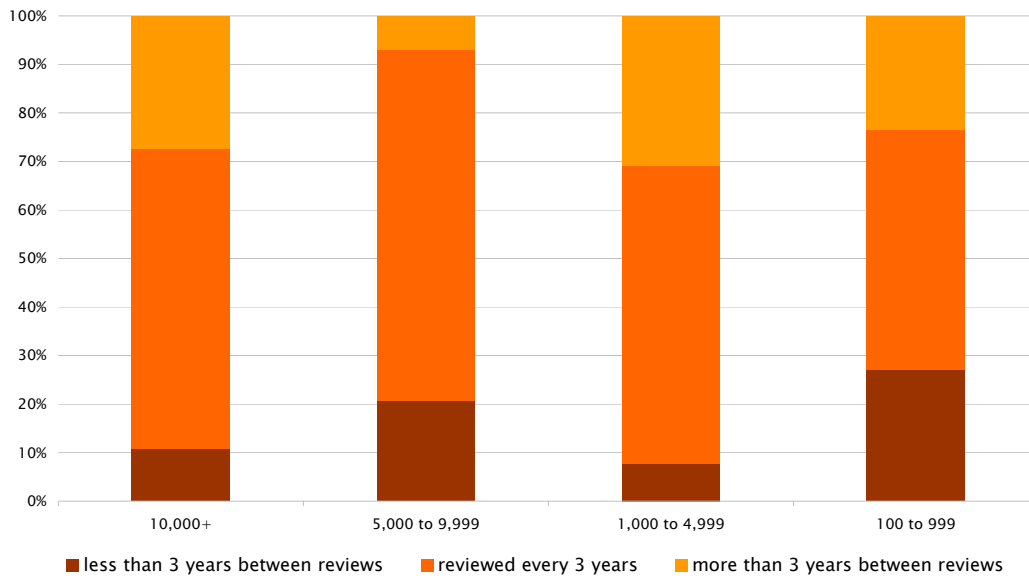
Figure 4.2 Sections of schemes by reason given as the most important reason for choosing to appoint a third party administrator



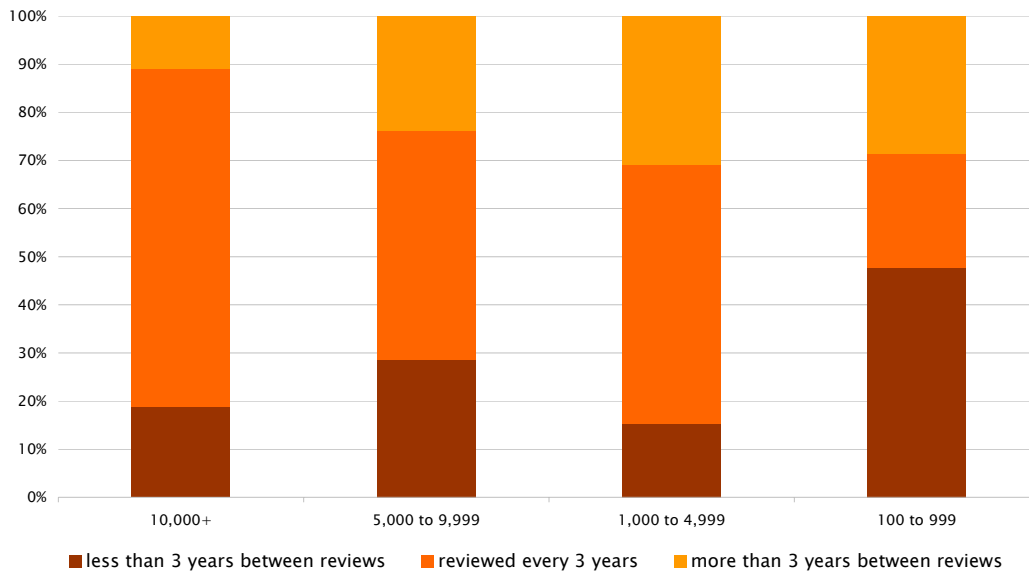
- 4.13 Having chosen the third party administrator approach to administering their pension scheme, trustees and employers will be aware that there are a considerable number of companies and organisations offering this service. These different possible providers compete on price and on level of service offered. Many schemes review their third party administrators on a regular basis.
- 4.14 Figure 4.3 shows, for defined-benefit and defined-contribution schemes in different size bands, the frequency with which scheme trustees review their third party administrators.
- 4.15 For most scheme benefit types and sizes, the favoured review period is three years. The question was asked of both insured schemes and schemes with third party administrators, and the high rate of frequent reviews among small defined-contribution schemes may be related to regular reviews of insurers providing both investment and administration services.

Figure 4.3 Schemes and scheme sections by size and frequency of review of appointment of administrator.

(i) defined-benefit schemes and sections of schemes only



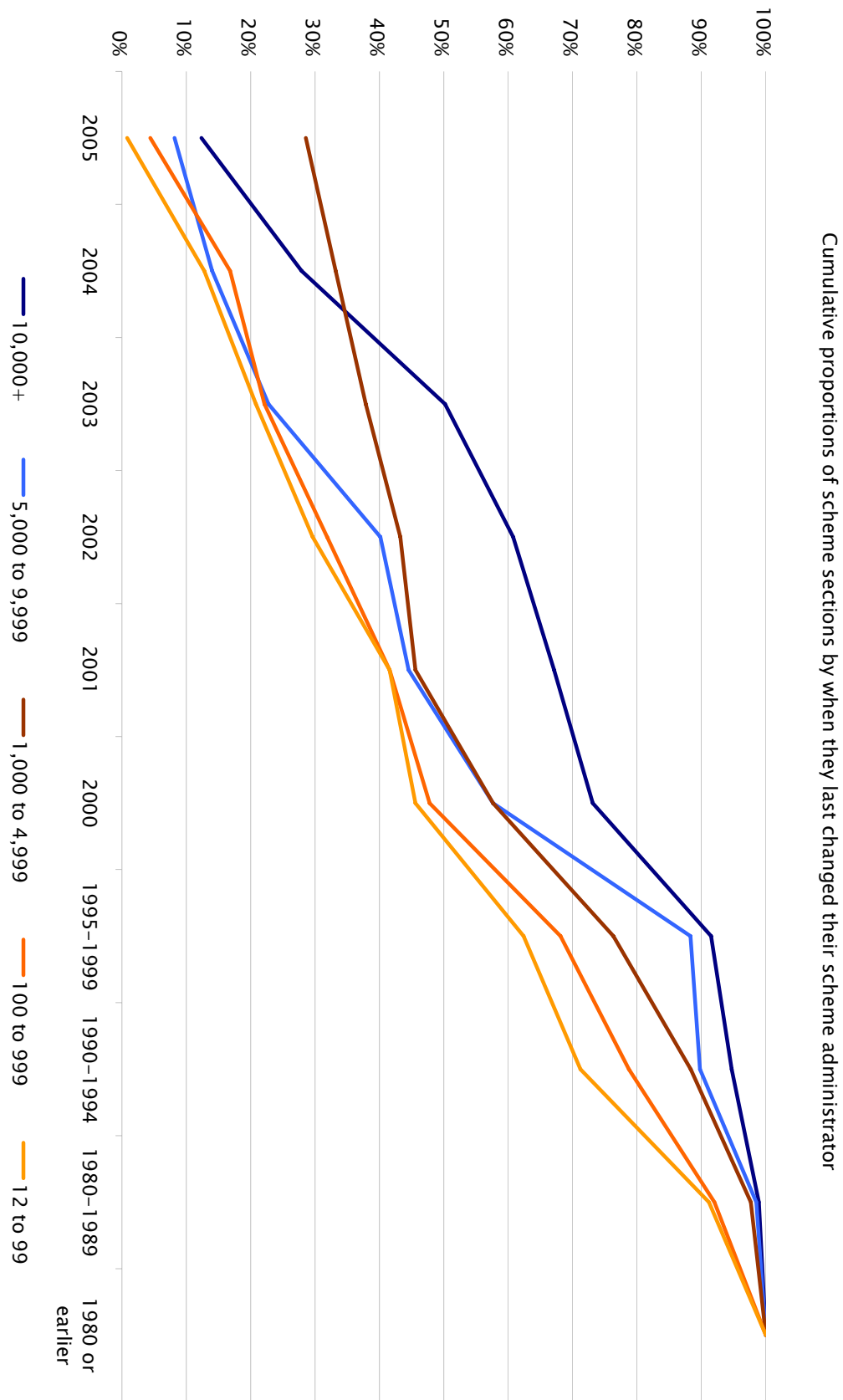
(ii) defined-contribution schemes and sections of schemes only



*Schemes with fewer than 100 members not included due to low response rates*

4.16 Reviews of administrators should lead, on some occasions at least, to changes of administrators. Schemes (which were wholly or partly administered by third party administrators) were asked when they last changed their administrator.

Figure 4.4 Scheme sections by size and when the scheme administrator was last changed (cumulative percentage of schemes changing administrator since date)



4.17 When appointing an administrator, the trustees of the scheme (or the sponsoring employer) are likely to want to specify exactly the services to be provided, and the standards to which those services are carried out. The concept of standards of service is explored more in the next section of this chapter.

4.18 To assist scheme trustees, employers and administrators in specifying the levels of service required, the Pensions Management Institute (PMI) has devised a model administration agreement (MAA) for schemes to use. Schemes in the survey were asked whether they had heard of this model agreement, and, if so, whether they used it as the basis of any agreement between themselves and their third party administrators. Tables 4.2 and 4.3 show results split by scheme benefit type and size respectively.

Table 4.2 Schemes by benefit type and use of the PMI's model administration agreement as the basis of the agreement between trustees and administrator

<u>Benefit type</u>	number of scheme sections			
	<u>Yes</u>	<u>No, but was aware of MAA</u>	<u>No, wasn't aware of MAA</u>	<u>No response</u>
Defined-benefit	481	1,110	3,140	1,760
Defined-contribution	166	472	1,800	2,730
<b>Total</b>	<b>646</b>	<b>1,580</b>	<b>4,940</b>	<b>4,500</b>

*Does not include schemes that are administered wholly in-house*

*Includes schemes with 12 or more members only*

*Results may not sum to totals shown due to rounding. Results are rounded to 3 significant figures*

Table 4.3 Schemes by size and use of the PMI's model administration agreement as the basis of the agreement between trustees and administrator

<u>Scheme size (total membership)</u>	number of scheme sections			
	<u>Yes</u>	<u>No, but was aware of MAA</u>	<u>No, wasn't aware of MAA</u>	<u>No response</u>
10,000+	20	97	18	40
5,000 to 9,999	..	112	43	..
1,000 to 4,999	111	341	225	390
100 to 999	261	778	2,038	1,090
12 to 99	..	253	2,615	..
<b>Total</b>	<b>646</b>	<b>1,580</b>	<b>4,940</b>	<b>4,500</b>

*Does not include schemes that are administered wholly in-house*

*Includes schemes with 12 or more members only*

*Results which are based on fewer than 3 responses have been suppressed, as denoted by ".."*

*Results may not sum to totals shown due to rounding. Results are rounded to 3 significant figures*

4.19 Defined-benefit schemes are more likely than defined-contribution schemes both to know about the PMI's MAA and to use it as the basis of their agreement with their administrator. Large schemes are more likely to be aware of the model agreement, with large and medium-sized schemes being most likely to use it.

4.20 Scheme rules often permit the trustees to exercise discretion in cases such as the award of ill-health retirement pensions, or the award of lump sum benefits on death-in-service. Schemes were asked whether the trustees delegated the use of any discretions that were granted, where such delegation was possible under scheme rules. Many schemes reported that the two areas for discretions mentioned above (award of ill-health pensions and lump sums benefits) were delegated. Also often mentioned was the delegation of investment management (presumably to qualified investment managers, whether as part of insurance of the scheme or otherwise).

### **Standards for administration**

4.21 Paragraphs 4.17 and 4.18 above discussed setting service level standards for schemes which outsource their administration to a third party administrator. Setting such standards is an effective way to ensure that a high quality service is offered to scheme members, whatever scheme administration approach is adopted.

4.22 Schemes were asked, in respect of a variety of regular tasks, whether they set standards for performance of those tasks, in terms of target times for dealing with them. Qualitative standards could also be set for many of these tasks (for instance, what level of errors was acceptable), but this was not explored, due to the lower frequency with which it was expected that such qualitative targets would be set and the difficulties of exploring such qualitative areas in a questionnaire.

4.23 Table 4.5 overleaf shows the average targets set (in terms of days, weeks or months as appropriate) for different tasks, and the number of schemes which are outside certain ranges, separately for schemes by size and benefit type.

Table 4.5 Average time targets set by schemes for different tasks by scheme benefit type and size (for schemes with 12 or more members only)

Where the columns are entitled "Below X" and "Above Y" X and Y are measured in the same terms (days, weeks, months) as stated in the heading

- (i) Publication of trustees' report and (audited) accounts: within how many months of year end

within x months of year end

<u>Scheme size</u> <u>(total membership)</u>	<u>Defined-benefit</u>			<u>Defined-contribution</u>			<u>Proportion of</u> <u>sections with no</u> <u>standard in place</u>	<u>Proportion of</u> <u>sections who didn't</u> <u>respond</u>
	<u>Mean</u>	<u>Below 4</u>	<u>Above 8</u>	<u>Mean</u>	<u>Below 4</u>	<u>Above 8</u>		
10,000+	6.10	8%	5%	6.29	5%	7%	16%	6%
1,000 to 9,999	6.22	10%	6%	6.07	14%	3%	16%	7%
12 to 999	6.62	5%	5%	6.18	11%	9%	18%	19%

- (ii) Reconciliation of contributions actually received against payment schedule: within how many days of month end

within x days of month end

<u>Scheme size</u> <u>(total membership)</u>	<u>Defined-benefit</u>			<u>Defined-contribution</u>			<u>Proportion of</u> <u>sections with no</u> <u>standard in place</u>	<u>Proportion of</u> <u>sections who didn't</u> <u>respond</u>
	<u>Mean</u>	<u>Below 7</u>	<u>Above 16</u>	<u>Mean</u>	<u>Below 7</u>	<u>Above 16</u>		
10,000+	9.51	42%	19%	9.00	55%	18%	28%	6%
1,000 to 9,999	13.95	26%	37%	12.63	45%	27%	40%	8%
12 to 999	13.13	23%	38%	14.26	28%	36%	38%	23%

- (iii) Despatch of annual benefit statements to members: within how many months of year end

within x months of year end

<u>Scheme size</u> <u>(total membership)</u>	<u>Defined-benefit</u>			<u>Defined-contribution</u>			<u>Proportion of</u> <u>sections with no</u> <u>standard in place</u>	<u>Proportion of</u> <u>sections who didn't</u> <u>respond</u>
	<u>Mean</u>	<u>Below 2</u>	<u>Above 6</u>	<u>Mean</u>	<u>Below 2</u>	<u>Above 6</u>		
10,000+	4.08	7%	12%	4.19	7%	7%	33%	7%
1,000 to 9,999	4.51	4%	12%	4.34	11%	13%	30%	8%
12 to 999	4.09	6%	11%	4.11	8%	13%	31%	23%

- (iv) Sending scheme booklet to eligible new employees within how many days of joining

within x days after joining

<u>Scheme size</u> <u>(total membership)</u>	<u>Defined-benefit</u>			<u>Defined-contribution</u>			<u>Proportion of</u> <u>sections with no</u> <u>standard in place</u>	<u>Proportion of</u> <u>sections who didn't</u> <u>respond</u>
	<u>Mean</u>	<u>Below 8</u>	<u>Above 20</u>	<u>Mean</u>	<u>Below 8</u>	<u>Above 20</u>		
10,000+	15.26	55%	34%	13.56	64%	24%	58%	12%
1,000 to 9,999	9.32	59%	18%	14.69	53%	29%	60%	14%
12 to 999	26.05	26%	49%	19.38	40%	40%	52%	26%

- (v) Dealing with phone enquiries from members within how many days of receipt

within x days of receipt

<u>Scheme size</u> <u>(total membership)</u>	<u>Defined-benefit</u>			<u>Defined-contribution</u>			<u>Proportion of</u> <u>sections with no</u> <u>standard in place</u>	<u>Proportion of</u> <u>sections who didn't</u> <u>respond</u>
	<u>Mean</u>	<u>Below 2</u>	<u>Above 8</u>	<u>Mean</u>	<u>Below 2</u>	<u>Above 8</u>		
10,000+	7.13	20%	35%	5.79	24%	29%	21%	7%
1,000 to 9,999	7.50	17%	40%	6.24	21%	21%	21%	8%
12 to 999	7.18	9%	39%	5.26	32%	25%	37%	22%

- (vi) Dealing with written enquiries from members within how many days of receipt

within x days of receipt

<u>Scheme size</u> <u>(total membership)</u>	<u>Defined-benefit</u>			<u>Defined-contribution</u>			<u>Proportion of</u> <u>sections with no</u> <u>standard in place</u>	<u>Proportion of</u> <u>sections who didn't</u> <u>respond</u>
	<u>Mean</u>	<u>Below 6</u>	<u>Above 12</u>	<u>Mean</u>	<u>Below 6</u>	<u>Above 12</u>		
10,000+	10.19	30%	19%	9.40	36%	18%	16%	7%
1,000 to 9,999	8.43	43%	12%	7.19	61%	8%	18%	8%
12 to 999	9.01	38%	12%	6.40	61%	11%	36%	22%

- (vii) Dealing with e-mail/website enquiries from members within how many days of receipt

within x days of receipt

<u>Scheme size</u> <u>(total membership)</u>	<u>Defined-benefit</u>			<u>Defined-contribution</u>			<u>Proportion of</u> <u>sections with no</u> <u>standard in place</u>	<u>Proportion of</u> <u>sections who didn't</u> <u>respond</u>
	<u>Mean</u>	<u>Below 6</u>	<u>Above 12</u>	<u>Mean</u>	<u>Below 6</u>	<u>Above 12</u>		
10,000+	8.96	36%	15%	8.11	51%	13%	24%	7%
1,000 to 9,999	8.43	45%	12%	6.30	64%	11%	27%	8%
12 to 999	9.16	44%	10%	5.40	65%	9%	44%	23%

- (viii) Setting up membership details for new member within how many days of receipt

within x days of receipt

<u>Scheme size</u> <u>(total membership)</u>	<u>Defined-benefit</u>			<u>Defined-contribution</u>			<u>Proportion of</u> <u>sections with no</u> <u>standard in place</u>	<u>Proportion of</u> <u>sections who didn't</u> <u>respond</u>
	<u>Mean</u>	<u>Below 6</u>	<u>Above 12</u>	<u>Mean</u>	<u>Below 6</u>	<u>Above 12</u>		
10,000+	9.36	47%	22%	7.91	58%	8%	43%	7%
1,000 to 9,999	6.81	60%	13%	8.06	56%	19%	46%	9%
12 to 999	9.87	47%	19%	13.03	37%	41%	53%	25%

- (ix) Processing a change in rate at which AVCs are paid within how many days of receipt

within x days of receipt

<u>Scheme size</u> <u>(total membership)</u>	<u>Defined-benefit</u>			<u>Defined-contribution</u>			<u>Proportion of</u> <u>sections with no</u> <u>standard in place</u>	<u>Proportion of</u> <u>sections who didn't</u> <u>respond</u>
	<u>Mean</u>	<u>Below 6</u>	<u>Above 12</u>	<u>Mean</u>	<u>Below 6</u>	<u>Above 12</u>		
10,000+	8.12	50%	12%	6.23	65%	7%	18%	6%
1,000 to 9,999	8.66	58%	14%	8.89	50%	18%	38%	8%
12 to 999	10.17	40%	17%	11.10	52%	43%	48%	24%

- (x) Providing a benefit quotation to a member approaching scheme pension age by how many weeks before pension age

<u>Scheme size</u> <u>(total membership)</u>	<u>Defined-benefit</u>			<u>Defined-contribution</u>			<u>Proportion of</u> <u>sections with no</u> <u>standard in place</u>		<u>Proportion of</u> <u>sections who didn't</u> <u>respond</u>	
	<u>Mean</u>	<u>Below 8</u>	<u>Above 20</u>	<u>Mean</u>	<u>Below 8</u>	<u>Above 20</u>				
10,000+	17.29	14%	28%	25.77	14%	51%	13%		6%	
1,000 to 9,999	16.20	18%	28%	17.39	15%	58%	19%		8%	
12 to 999	10.14	30%	13%	10.67	47%	20%	33%		23%	

- (xi) Providing a transfer value quotation within how many days of receipt

<u>Scheme size</u> <u>(total membership)</u>	<u>Defined-benefit</u>			<u>Defined-contribution</u>			<u>Proportion of</u> <u>sections with no</u> <u>standard in place</u>		<u>Proportion of</u> <u>sections who didn't</u> <u>respond</u>	
	<u>Mean</u>	<u>Below 12</u>	<u>Above 25</u>	<u>Mean</u>	<u>Below 12</u>	<u>Above 25</u>				
10,000+	20.33	48%	22%	14.97	63%	12%	12%		6%	
1,000 to 9,999	22.76	55%	21%	12.45	64%	16%	17%		8%	
12 to 999	20.48	45%	27%	16.22	41%	22%	36%		22%	

All tables: Includes schemes with 12 or more members only

4.24 Where the questionnaire for the survey was being completed by scheme trustees (some questionnaires were forwarded to administrators for answer, as part of the administration service offered to the scheme), respondents were asked about how good they felt the quality of administration of their scheme was. The question was phrased in terms of whether the trustees felt that the standards they had set were being met very well, well, reasonably or poorly. Most trustees thought that their schemes were being administered well or very well.

## Number of employees working on pension administration

- 4.25 Whether or not the main scheme administration is outsourced to a third party administrator or an insurance company, there will generally need to be someone in the sponsoring employer's organisation who works on pension matters. In a few cases staff members will be directly employed by the trustees, or as a subsidiary company of the sponsoring employer entirely devoted to administering the pension fund.
- 4.26 Where day-to-day administration of the scheme is outsourced, staff will be needed to help set pensions strategy for the sponsoring employer's organisation, and to oversee the performance of the administrator. Secretarial support for the trustees and liaison with professional advisers are other matters that may be performed within the sponsoring employer's organisation. Where investment of the scheme's assets is separate from the administration of the scheme, liaison with investment managers may also be done internally – in a few very big schemes investment management may also be carried out in-house.
- 4.27 Schemes were asked how many staff, either in the sponsoring employer's organisation or directly employed by the trustees, worked on pensions issues, and how many full-time equivalent posts that represented. Table 4.6 shows the average numbers of full-time equivalent posts for schemes of different sizes and different approaches to administration.

Table 4.6 Average full-time employees administering each pension scheme/ section of a scheme by scheme size and approach to administration

<u>Scheme size</u> <u>(total membership)</u>	Number of individuals per scheme section		
	<u>Wholly in-house</u>	<u>Partially in-house,</u> <u>partially outsourced</u>	<u>Wholly outsourced</u>
10,000+	19	6	5
5,000 to 9,999	4	2	2
1,000 to 4,999	3	1	2
100 to 999	4	1	0
12 to 99	1	0	0

*Includes schemes with 12 or more members only*

- 4.28 Clearly, as might be expected, larger schemes require more staff to administer them, and schemes administered in-house require substantially more staff than schemes where some or all of the administration is outsourced.

4.29 Schemes were also asked if any of their staff had particular qualifications relevant to administration of pension schemes. In particular schemes were asked how many people working on scheme administration had qualifications in:

- pensions management
- finance or accounting
- investment
- personnel management, or
- other potentially relevant qualifications.

4.30 Qualifications administered by the Pensions Management Institute featured strongly among both what were regarded as pension management qualifications and qualifications regarded as “other potentially relevant qualifications”. As might be expected, many schemes recorded that the staff working on pensions administration were members of the PMI, had reached associateship status in the PMI (APMI) or had achieved full fellowship of the PMI (FPMI). In addition many schemes recorded that the staff working on them held such qualifications as the Qualification in Pensions Administration, the Retirement Provision Certificate, the Diploma in Pension Calculations or the Pension Plan Executive Certificate, all administered by the PMI.

4.31 Among other qualifications listed as relevant for pensions administrators and held by staff working on the schemes in the survey were associateship or fellowship of the Chartered Insurance Institute (ACII and FCII), the Financial Planning Certificate, actuarial qualifications (associateship or fellowship of the Institute of Actuaries - AIA or FIA), and law degrees.

4.32 Among accountancy qualifications listed were membership at associateship or fellowship levels of accountancy bodies such as the Institute of Chartered Accounts of England and Wales, the Chartered Institute of Management Accountants, and the Association of Chartered Certified Accountants. Investment management qualifications were generally those issued by the Association of Investment Managers, but also included actuarial qualifications and fellowship of the Chartered Institute of Bankers. Personnel qualifications were mainly membership of the Chartered Institute of Personnel and Development.

## Chapter 5 – Expenses of administering schemes

- 5.1 As described in paragraph 4.2, an aim of this survey was to explore the administration costs faced by schemes. As such it should serve to update the ad hoc survey carried out by the Government Actuary's Department in 1997.
- 5.2 The 1997 survey focussed on expenses of different activities, expressed as the average cost for each member as well as totals, and split by scheme size. Some costs of administering a scheme are related closely to the size of the scheme – for instance, dealing with queries from members. Other costs are of a similar order of magnitude for all schemes, relating to matters of scheme governance, such as preparing accounts and trustees' reports. As in the 1997 survey, the costs were split into administration costs, investment management expenses, and other costs. Investment management costs are often related to the size of assets invested, and are therefore often proportional to scheme size (to the extent that scheme assets are well-correlated to scheme membership). Administration expenses cover a mixture of those expenses that are proportional to the number of members and those which are broadly fixed for schemes of all sizes.
- 5.3 However, it was clear that different approaches to administration would lead to different levels of costs. Figure 4.2 in chapter 4 suggests that only in a minority of cases is cost the key reason for choosing a third party administrator. Therefore, using a third party administrator may not be cheaper than an in-house approach. The data collected on scheme administration expenses was analysed separately for schemes with different approaches to administration.
- 5.4 Industry commentators suggested that scheme expenses are also related to the standard of administration required, with high quality administration – tasks turned round very quickly and accurately – costing more than administration for schemes setting less demanding standards. However, the response data did not permit this level of analysis.
- 5.5 Table 5.1 shows average administration costs of different types divided by the number of scheme members for schemes with different approaches to administration and by scheme size and benefit type. The administration costs are for the most recent year – unfortunately insufficient data were collected to allow calculation of averages for the last three years.

Table 5.1 Average annual administration costs of different aspects of scheme administration divided by number of scheme members, by scheme benefit type, size and approach to administration

(i) defined-benefit schemes

costs per member (pounds)				
<u>Administration arrangement</u>	<u>Scheme size (total membership)</u>	<u>Administration costs</u>	<u>Investment management costs</u>	<u>Other costs</u>
Wholly in-house	10,000+	12	62	12
	5,000 to 9,999	32	75	40
	1,000 to 4,999	25	75	142
	100 to 999	195	214	47
	12 to 99			
Wholly third-party administrator	10,000+	59	90	5
	5,000 to 9,999	80	90	24
	1,000 to 4,999	94	66	12
	100 to 999	187	77	18
	12 to 99	643	29	
Wholly by an insurance company	10,000+			
	5,000 to 9,999			
	1,000 to 4,999			
	100 to 999	144	1	6
	12 to 99	193		
Partially in-house, partially outsourced	10,000+	37	72	73
	5,000 to 9,999	27	34	10
	1,000 to 4,999	98	35	7
	100 to 999	161	64	27
	12 to 99	1096	261	33

*Includes schemes with 12 or more members only  
 Figures are rounded to the nearest pound*

Table 5.1 (cont) Average annual administration costs of different aspects of scheme administration divided by number of scheme members, by scheme benefit type, size and approach to administration

(ii) defined-contribution schemes

costs per member (pounds)				
<u>Administration arrangement</u>	<u>Scheme size (total membership)</u>	<u>Administration costs</u>	<u>Investment management costs</u>	<u>Other costs</u>
Wholly in-house	10,000+			
	5,000 to 9,999			
	1,000 to 4,999			
	100 to 999			
	12 to 99	337		
Wholly third-party administrator	10,000+			
	5,000 to 9,999	48	12	0
	1,000 to 4,999			
	100 to 999	222	33	62
	12 to 99			
Wholly by an insurance company	10,000+			
	5,000 to 9,999			
	1,000 to 4,999	376		
	100 to 999			
	12 to 99	23	20	
Partially in-house, partially outsourced	10,000+			
	5,000 to 9,999			
	1,000 to 4,999	87	62	
	100 to 999	213	47	1
	12 to 99	130		

*Includes schemes with 12 or more members only*

*Figures are rounded to the nearest pound*

5.6 The pattern of results is broadly as expected. Average administration costs for each member tend to increase with decreasing scheme size, because of the effect of costs that are largely independent of scheme size. Investment management costs vary less by size of scheme. Results may be distorted by difficulties that schemes experience in accounting for administration expenses incurred in respect of work carried out by employees of the sponsoring employer, and by the residual effects of one-off exercises carried out in the years for which expense data were collected.

5.7 Schemes were also asked if they had carried out exercises to estimate the costs of particular transactions – for instance, processing a certain kind of request from a member or making a simple amendment to the trust deed and rules governing the scheme. Insufficient responses were received for any analysis.

## Chapter 6 – Communications

- 6.1 The occupational pension schemes survey in 2000 contained a section on how scheme trustees and managers communicated with their members (chapter 7, paragraphs 7.16 to 7.18). It noted that such communication was increasingly seen as an important task. Communications can cover individual members' rights in the scheme (for instance, by way of benefit statements or projections), or it can be more general about governance of the scheme (for instance, sending the scheme's annual trustees' report and accounts, or a summary of them, to members).
- 6.2 In addition, schemes, or, more often, sponsoring employers, might want to communicate the benefits of scheme membership to employees who are eligible to join the scheme but who have not done so.
- 6.3 Certain types of communication are statutory requirements. Defined-contribution schemes and sections of schemes are required by law to provide illustrations of benefits at regular intervals and according to a standard methodology prescribed by the actuarial profession and approved for the purpose by the government. These are known as statutory money purchase illustrations (see paragraph 6.8). Other legislation (colloquially referred to as the disclosure regulations), requires particular information to be sent to members either automatically or on request.
- 6.4 Increasingly the trustees, managers and administrators of schemes are using the internet to communicate with scheme members. This can allow members to access up-to-date general information about the scheme, and, in some cases, to obtain personalised information about their own rights in the scheme.

## Frequency of benefit statements

- 6.5 Schemes are required to provide members with statements of the benefits that they have accrued based on service up to a current date. This information must be provided on request, provided that the scheme has not provided the same information already once within the previous twelve months. Many schemes provide such statements automatically every year, meaning that they do not have to respond to member requests. However schemes may adopt different approaches for active employee members and for deferred members (those with preserved pension entitlements).
- 6.6 Table 6.1 overleaf shows the scheme practice in providing benefit statements for different types, sizes and statuses of schemes.
- 6.7 Benefit statements (or statements of accounts in defined-contribution schemes) are most commonly provided annually. This applies for schemes of all benefit types, sizes and statuses. It is slightly more common amongst defined-contribution schemes than amongst defined-benefit schemes to provide benefit statements or statements of accounts more regularly than annually.

Table 6.1 Sections and members of sections by benefit type, status and size and the frequency of issue of account or benefit statements to members.

(i) defined-benefit schemes

Scheme size (total membership)	Frequency of Account Statement	Open			Closed			Frozen		Total		
		Scheme sections	Active members	Deferred members	Scheme sections	Active members	Deferred members	Scheme sections	Deferred members	Scheme sections	Active members	Deferred members
10,000+	Annually	101	1.14	1.22	127	0.93	1.61			228	2.07	2.82
	More frequently	..	..	..						..	..	..
	On request	5	0.18	0.14	9	0.03	0.10			14	0.21	0.25
	No Response	..	..	..	7	0.00	0.15			..	..	..
5,000 to 9,999	Annually	78	0.17	0.19	103	0.13	0.23			182	0.30	0.42
	More frequently	..	..	..						..	..	..
	On request	..	..	..	7	0.01	0.01			..	..	..
	No Response	..	..	..				9	0.02	9	..	0.02
1,000 to 4,999	Annually	326	0.31	0.22	450	0.22	0.41			776	0.53	0.63
	More frequently	..	..	..						..	..	..
	On request	60	0.04	0.02	..	..	..			77	0.04	0.04
	No Response	..	..	..	..	..	..	104	0.19	..	..	..
100 to 999	Annually	926	0.18	0.14	1,720	0.20	0.27			2,650	0.38	0.41
	More frequently	..	..	..						..	..	..
	On request	118	0.01	0.01	118	0.01	0.03			237	0.02	0.04
	No Response	..	..	..	71	0.01	0.01	660	0.13	754	..	0.14
12 to 99	Annually	802	0.02	0.01	735	0.01	0.01			1,540	0.03	0.02
	More frequently	..	..	..						..	..	..
	On request	..	..	..	162	0.00	0.01			162	0.00	0.01
	No Response	..	..	..	..	..	..	573	0.02	..	..	..
<b>Total</b>		<b>2,595</b>	<b>2.10</b>	<b>1.99</b>	<b>3,580</b>	<b>1.55</b>	<b>2.88</b>	<b>1,350</b>	<b>0.36</b>	<b>7,530</b>	<b>3.65</b>	<b>5.23</b>

*Includes schemes with 12 or more members only*  
*Results which are based on fewer than 3 responses have been suppressed, as denoted by “..”*  
*Results may not sum to totals shown due to rounding. Results are rounded to 3 significant figures*

Table 6.1 (cont) Sections and members of sections by benefit type, status and size and the frequency of issue of account or benefit statements to members.

Scheme size (total membership)	Frequency of Account Statement	Open			Closed			Frozen		Total		
		Scheme sections	Active members	Deferred members	Scheme sections	Active members	Deferred members	Scheme sections	Deferred members	Scheme sections	Active members	Deferred members
10,000+	Annually	48	0.23	0.11	16	0.02	0.10	..	..	64	0.25	0.20
	More frequently	8	0.03	0.01	..	..	..	..	..	8	0.03	0.01
	On request	8	0.03	0.02	..	..	..	..	..	..	..	..
	No Response	4	0.00	0.00	..	..	..	..	..	..	0.00	..
5,000 to 9,999	Annually	50	0.13	0.07	28	0.04	0.10	..	..	78	0.17	0.17
	More frequently	..	..	..	..	..	..	..	..	..	..	..
	On request	19	0.04	0.02	..	..	..	..	..	19	0.04	0.02
	No Response	..	..	..	..	..	..	..	..	..	..	..
1,000 to 4,999	Annually	176	0.08	0.11	..	..	..	45	0.05	..	..	..
	More frequently	..	..	..	..	..	..	..	..	..	..	..
	On request	..	..	..	..	..	..	..	..	..	..	..
	No Response	..	..	..	..	..	..	45	0.05	..	..	0.05
100 to 999	Annually	545	0.12	0.05	118	0.01	0.01	..	..	663	0.13	0.06
	More frequently	..	..	..	..	..	..	..	..	71	0.01	0.01
	On request	..	..	..	..	..	..	..	..	..	..	..
	No Response	..	..	..	..	..	..	71	0.02	..	..	..
12 to 99	Annually	1,880	0.04	0.04	482	0	0.01	..	..	2,360	0.05	0.05
	More frequently	..	..	..	..	..	..	..	..	..	..	..
	On request	..	..	..	..	..	..	..	..	..	..	..
	No Response	..	..	..	..	..	..	..	..	..	..	..
<b>Total</b>	<b>3,130</b>	<b>0.77</b>	<b>0.47</b>	<b>1,960</b>	<b>0.12</b>	<b>0.23</b>	<b>370</b>	<b>0.22</b>	<b>5,460</b>	<b>0.89</b>	<b>0.92</b>	

Includes schemes with 12 or more members only  
 Results which are based on fewer than 3 responses have been suppressed, as denoted by “..”  
 Results may not sum to totals shown due to rounding. Results are rounded to 3 significant figures

## **Statutory money purchase illustrations**

- 6.8 As mentioned above, members with defined-contribution benefits must be sent illustrations of the possible size of their eventual benefits, in a standard form laid down by legislation and guidance issued by the actuarial profession. Such illustrations are known as statutory money purchase illustrations (SMPIs). The legislation and the guidance issued by the actuarial profession and approved for the purpose by the government set certain standards for these illustrations, but also allow flexibility about additional information that may be provided alongside the main illustration. The illustrations are designed to prompt consideration by scheme members of their possible pension benefits, and as such will perhaps cause some members to ask follow-up questions of scheme trustees or administrators.
- 6.9 Defined-contribution schemes and sections of schemes were asked how long after the end of the year such statutory money purchase illustrations were despatched to most members. The results are shown in table 6.2 opposite.

Table 6.2 Defined-contribution schemes and sections by size and status and the time taken to despatch statutory money purchase illustrations after the end of the scheme year.

<u>Scheme size</u> <u>(total membership)</u>	<u>SMPI receipt after</u> <u>scheme year</u>	<u>Open</u>	<u>Closed</u>	<u>Total</u>
10,000+	less than 2 months	7	5	12
	2-3 months	13	4	17
	3-6 months	29	5	34
	6-9 months	..	..	17
	over 9 months	..	..	4
	no response	..	..	1
5,000 to 9,999	less than 2 months	9	..	26
	2-3 months	7	..	9
	3-6 months	30	..	32
	6-9 months	28	..	33
	over 9 months	..	..	..
	no response	..	..	4
1,000 to 4,999	less than 2 months	..	..	..
	2-3 months	..	..	30
	3-6 months	114	..	129
	6-9 months	32	..	32
	over 9 months	..	..	30
	no response	..	..	..
100 to 999	less than 2 months	..	..	142
	2-3 months	..	..	118
	3-6 months	332	71	403
	6-9 months	95	..	95
	over 9 months	..	..	..
	no response	71	..	71
12 to 99	less than 2 months	277	..	277
	2-3 months	..	..	802
	3-6 months	458	253	711
	6-9 months	..	..	344
	over 9 months	..	..	229
	no response	..	..	1,490
<b>Total</b>		<b>3,130</b>	<b>1,960</b>	<b>5,090</b>

*Includes schemes with 12 or more members only*

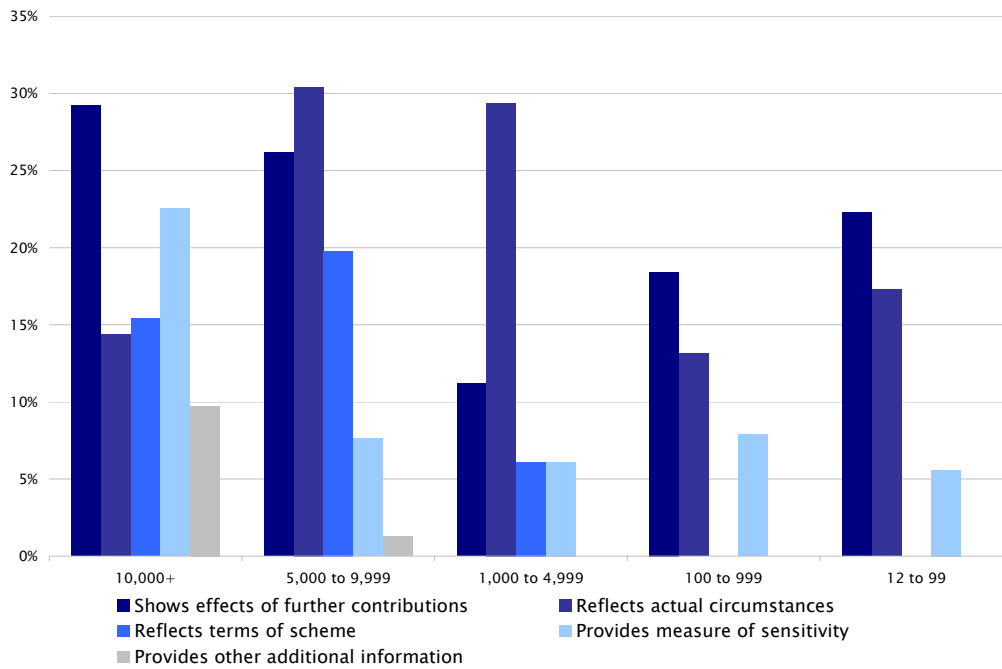
*Results which are based on fewer than 3 responses have been suppressed, as denoted by “..”*

*Results may not sum to totals shown due to rounding. Results are rounded to 3 significant figures*

- 6.10 Table 6.2 shows that the most common period for despatch of statutory money purchase illustrations to members is between 3 and 6 months of the scheme year end. Among the largest schemes a significant minority are able to do it more quickly, but this is less often the case for medium-sized and small schemes.
- 6.11 The legislation and guidance for statutory money purchase illustrations permits additional information to be shown. In particular, the guidance lists five different kinds of additional information that might be offered:
- showing the effect of further or different contributions to the scheme;
  - reflecting more closely the member's actual circumstances (for example, the member's target retirement date where this differs from the scheme's normal retirement age);
  - reflecting more closely the terms of the scheme compared to the generic assumptions specified;
  - providing a measure of the sensitivity of results to changes in one or more of the assumptions; or
  - providing other additional information on the results (for example, illustrations of the relationship between risk and return from different investment strategies).

Figure 6.1 shows what additional information different sized schemes provide.

Figure 6.1 Percentages of defined-contribution scheme sections by size and by additional detail shown in statutory money purchase illustrations



6.12 Schemes of all sizes are fairly likely to show additional information alongside the main statutory money purchase illustration to show the effects of the member making further contributions. Very large schemes are most likely to show the sensitivity of results to different assumptions underlying the projections. Large and medium-sized schemes are more likely to show additional information about how the actual terms of the scheme (as opposed to those laid down in the standard methodology) affect the results.

## Newsletters and other regular written communications

6.13 Many schemes produce a newsletter for their members to convey general information about the scheme. Such a newsletter may be produced for all scheme members, for pensioner and employee members, or just for employee members. Schemes were asked about whether they produced a newsletter and, if so, how often it was produced and to which categories of members it was sent. Table 6.3 shows the results of the analysis in a format very similar to that used in the 2000 occupational pension scheme survey.

Table 6.3 Frequency of newsletters for difference categories of members, by scheme size

(i) frequency of newsletters sent to active employee members

<u>Scheme size</u> <u>(total membership)</u>	number of scheme sections						<u>Total</u>
	<u>Monthly</u>	<u>Quarterly</u>	<u>Annually</u>	<u>Other</u>	<u>No newsletter for this group</u>	<u>No response</u>	
10,000+		32	148	69	81	8	338
5,000 to 9,999	..	..	120	84	78	..	308
1,000 to 4,999		..	674	106	412	74	1,280
100 to 999		71	997	..	3,140	..	4,540
12 to 99			458	..	4,270	..	6,520
<b>Total</b>	..	..	<b>2,400</b>	<b>564</b>	<b>7,980</b>	<b>1,910</b>	<b>12,990</b>

(ii) frequency of newsletters sent to pensioner members

<u>Scheme size</u> <u>(total membership)</u>	number of scheme sections						<u>Total</u>
	<u>Monthly</u>	<u>Quarterly</u>	<u>Annually</u>	<u>Other</u>	<u>No newsletter for this group</u>	<u>No response</u>	
10,000+	..	45	129	79	61	..	338
5,000 to 9,999	..		103	91	..		308
1,000 to 4,999			491	121	595	74	1,280
100 to 999		..	..	118	3,520	..	4,540
12 to 99			..	..	..	..	6,520
<b>Total</b>	..	..	<b>1,850</b>	<b>524</b>	<b>8,770</b>	<b>1,760</b>	<b>12,990</b>

(iii) frequency of newsletters sent to members with preserved pension entitlements

<u>Scheme size</u> <u>(total membership)</u>	number of scheme sections						<u>Total</u>
	<u>Monthly</u>	<u>Quarterly</u>	<u>Annually</u>	<u>Other</u>	<u>No newsletter for this group</u>	<u>No response</u>	
10,000+		23	94	38	162	21	338
5,000 to 9,999	..	..	77	69	132	..	308
1,000 to 4,999			362	60	801	60	1,280
100 to 999			591	..	3,710	..	4,540
12 to 99			..	..	4,500	..	6,520
<b>Total</b>	..	..	<b>1,610</b>	<b>261</b>	<b>9,300</b>	<b>1,780</b>	<b>12,990</b>

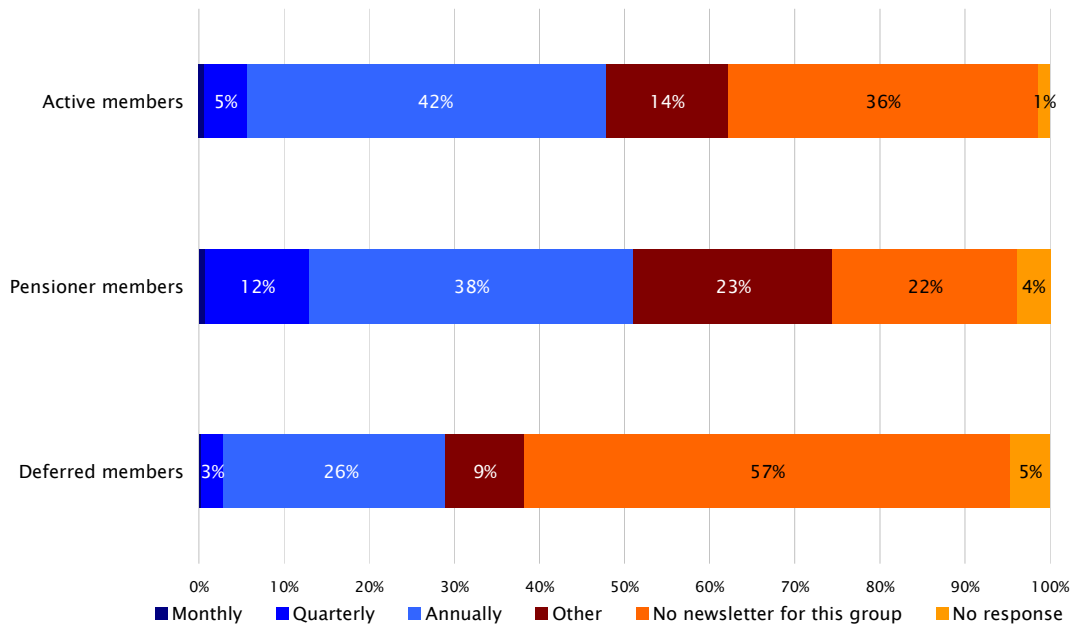
All tables: Includes schemes with 12 or more members only

Results which are based on fewer than 3 responses have been suppressed, as denoted by “..”

Results may not sum to totals shown due to rounding. Results are rounded to 3 significant figures

6.14 The information from table 6.3 can be re-expressed to show what proportions of total scheme membership (by membership class) receive newsletters with different frequencies. This is done in figure 6.2.

Figure 6.2 Frequency with which members receive a scheme newsletter



6.15 Clearly, the larger a scheme is, the more likely it is to have a regular newsletter, and the more likely it is for that regular newsletter to be more frequent than annual. Pensioner members are most likely to receive a newsletter, with active employee members more likely to do so than deferred members (active members may be in regular receipt of other information about the terms and conditions of their employment, including their pension rights, from their employers).

6.16 Another way for trustees to send information about the schemes to their members is to provide them with copies of the annual trustees' report and accounts for the scheme. Trustees must send members copies of their report and the scheme accounts on request. Schemes were asked whether it was their practice to send a full copy or a summary version to members in different classes without a request. Table 6.4 shows the results for this question.

Table 6.4 Scheme practice on sending the trustees' report and accounts to different categories of members by scheme size

(i) sending trustees' report and accounts to active employee members

number of scheme sections

<u>Scheme size</u> <u>(total membership)</u>	<u>Full report</u> <u>and accounts</u>	<u>Summary</u> <u>version</u>	<u>Not sent to</u> <u>this group</u>	<u>No response</u>	<u>Total</u>
10,000+	7	263	61	8	338
5,000 to 9,999	13	203	86	7	308
1,000 to 4,999		520	673	89	1,280
100 to 999	261	1,080	3,030	166	4,540
12 to 99	367	344	3,920	1,880	6,520
<b>Total</b>	<b>648</b>	<b>2,410</b>	<b>7,770</b>	<b>2,150</b>	<b>12,990</b>

(ii) sending trustees' report and accounts to pensioner members

number of scheme sections

<u>Scheme size</u> <u>(total membership)</u>	<u>Full report</u> <u>and accounts</u>	<u>Summary</u> <u>version</u>	<u>Not sent to</u> <u>this group</u>	<u>No response</u>	<u>Total</u>
10,000+	..	237	84	..	338
5,000 to 9,999	9	183	112	..	308
1,000 to 4,999	..	437	771	..	1,282
100 to 999	118	..	3,530	..	4,539
12 to 99		..	4,540	..	6,518
<b>Total</b>	<b>144</b>	<b>1,680</b>	<b>9,040</b>	<b>2,130</b>	<b>12,990</b>

(iii) sending trustees' report and accounts to members with preserved pension entitlements

number of scheme sections

<u>Scheme size</u> <u>(total membership)</u>	<u>Full report</u> <u>and accounts</u>	<u>Summary</u> <u>version</u>	<u>Not sent to</u> <u>this group</u>	<u>No response</u>	<u>Total</u>
10,000+		161	164	13	338
5,000 to 9,999		..	182	..	308
1,000 to 4,999	..	325	882	..	1,280
100 to 999	..	547	3,870	..	4,540
12 to 99	..	..	4,540	1,750	6,520
<b>Total</b>	<b>153</b>	<b>1,270</b>	<b>9,640</b>	<b>1,920</b>	<b>12,990</b>

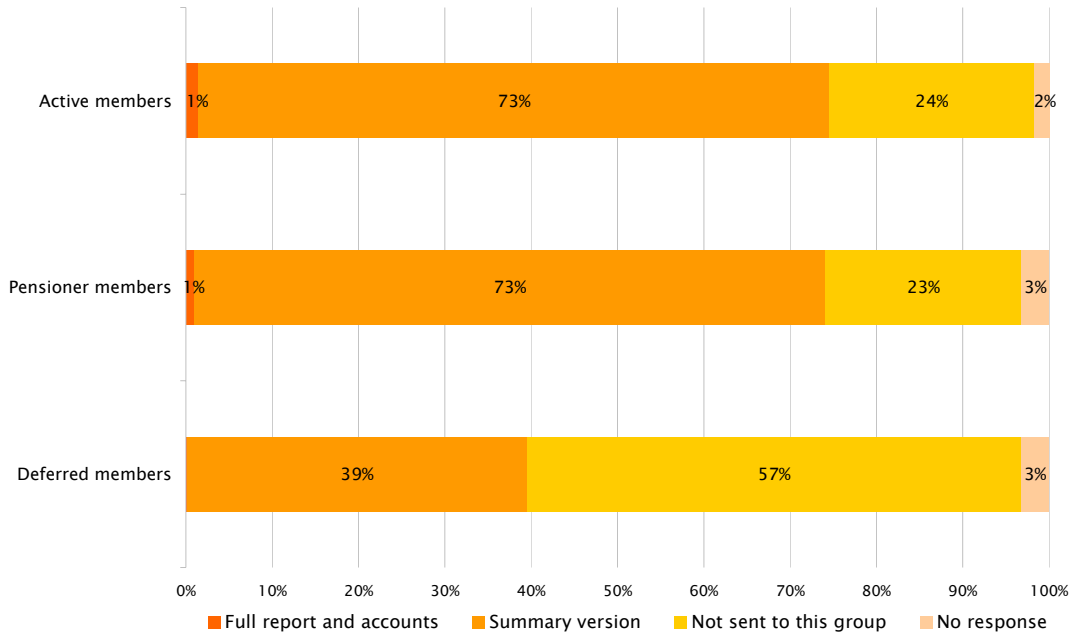
All tables: Includes schemes with 12 or more members only

Results which are based on fewer than 3 responses have been suppressed, as denoted by ".."

Results may not sum to totals shown due to rounding. Results are rounded to 3 significant figures

6.17 Again this can usefully be expressed by considering the proportions of total membership in each class which receives the trustees' annual reports and accounts under different conditions. Figure 6.3 shows this.

Figure 6.3 Scheme members in different classes by whether and how members are automatically sent trustee annual reports



6.18 It seems that large schemes are perhaps most likely to produce a summary version of the trustees' report and accounts for sending to members. Smaller schemes are slightly more likely than larger schemes to send the full version. Again it is clear that members with preserved pension entitlements are much less likely to receive this information automatically than other classes of members.

## Use of websites in scheme communications

6.19 Organisations of all types are increasingly using websites to communicate with interested parties. Websites can allow two-way communication – they can permit standard information to be read by all, and they can allow those reading the material an easy way of contacting its originators, by way of e-mail and feedback forms. In addition, a website combined with an underlying database (and suitable security) can allow individuals to access personal information held on them by the organisation.

6.20 Schemes were asked whether they had a website, and, if so, whether it was an intranet site, available only to a small group of members (for instance, those who were employees of the sponsoring employer), or a full website available to all members. Schemes with websites were asked whether members could use the site to e-mail the scheme administrators directly or to obtain information about their individual benefits. Tables 6.5 and 6.6 show the results of the analysis of this question.

Table 6.5 Scheme sections by size and whether schemes have websites

<u>Scheme size</u> <u>(total membership)</u>	number of scheme sections			
	<u>Yes, an intranet site only</u>	<u>Yes, a website, with or without an intranet site</u>	<u>No</u>	<u>No response</u>
10,000+	91	135	110	..
5,000 to 9,999	97	72	135	..
1,000 to 4,999	124	89	1,020	45
100 to 999	284	118	4,060	71
12 to 99	..	..	4,860	1,540

*Includes only schemes with 12 or more members*

*Results which are based on fewer than 3 responses have been suppressed, as denoted by “..”*

*Results are rounded to 3 significant figures*

Table 6.6 Scheme sections of schemes with websites by size and how the website used

<u>Scheme size</u> <u>(total membership)</u>	number of scheme sections								
	<u>Can members e-mail the scheme administrators directly from the site?</u>			<u>Is the site accessible by deferred members and pensioners of the scheme?</u>			<u>Is it intended that members can obtain information about their benefits from the site?</u>		
	<u>Yes</u>	<u>No</u>	<u>No response</u>	<u>Yes</u>	<u>No</u>	<u>No response</u>	<u>Yes</u>	<u>No</u>	<u>No response</u>
10,000+	160	63	..	123	100	..	104	120	..
5,000 to 9,999	101	59	9	77	90	..	64	98	7
1,000 to 4,999	74	124	..	74	124	..	..	139	..
100 to 999	166	213	..	142	..	..	..	237	..
12 to 99	..	..	..	..	..	..	..	..	..

*Includes only schemes with 12 or more members*

*Results which are based on fewer than 3 responses have been suppressed, as denoted by “..”*

*Results are rounded to 3 significant figures*

- 6.21 Clearly, and as might be expected, very large and large schemes are more likely to have a website or internet site than smaller schemes. Among the largest schemes a full website is more common, but for large schemes an intranet site is more common. The websites and intranet sites of very large schemes are more likely than those of smaller schemes to offer functions like the ability to e-mail the scheme administrators and the provision of individual benefit information.
- 6.22 Some scheme stated that they recorded the number of “hits” on their internet sites as part of ensuring that communication with members was being understood or appreciated.

### **Ensuring communications are understood by members**

- 6.23 Schemes were asked about exercises they undertook to ensure that their communications with members were read and understood. A variety of comments were received. Approaches mentioned by a number of schemes included:
- adopting some kind of “plain English” standard for communications, either formally or through informal scrutiny of materials before issue;
  - seeking feedback from some or all members as to how well the materials have been understood;
  - use of specialist communications consultants;
  - use of face-to-face presentations to communicate with members.

## Additional help for members in planning their retirement

6.24 A few schemes seek to offer additional help to their members in planning for their retirement and other contingencies by offering members one-to-one sessions with financial advisers. Table 6.7 shows the results of analysis of a question asking schemes whether they did this for different classes of members.

Table 6.7 Proportion of members offered one-to-one sessions with financial advisers by their scheme

### (i) defined-benefit schemes

	<u>Yes</u>	<u>No</u>
Active employee members	12%	88%
Pensioner members	1%	99%
Preserved pension entitlements	1%	99%

### (ii) defined-contribution schemes

	<u>Yes</u>	<u>No</u>
Active employee members	17%	83%
Preserved pension entitlements	12%	88%

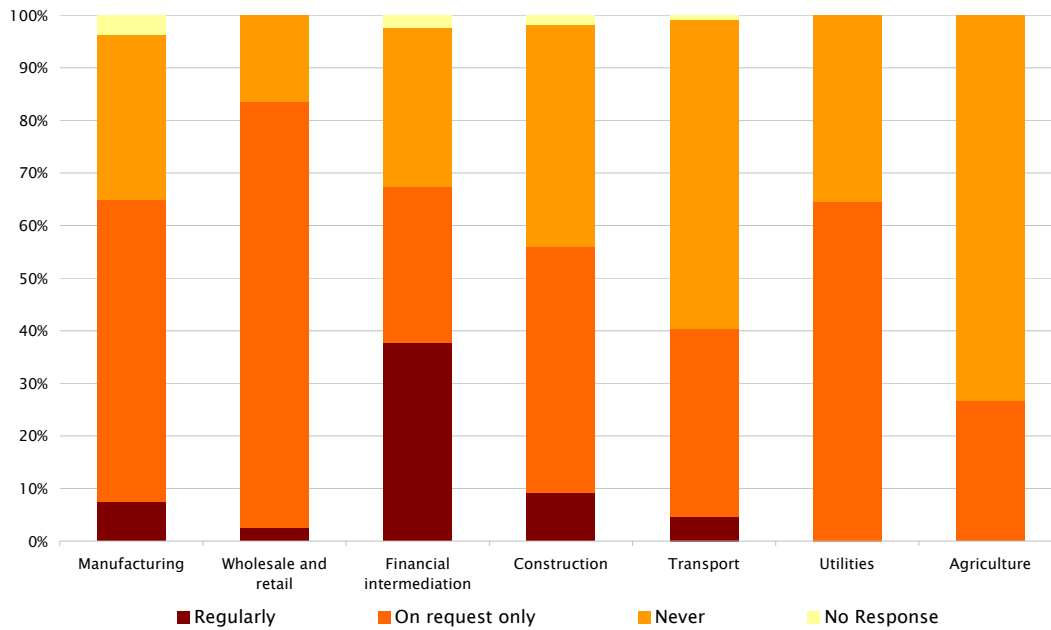
*Includes schemes with 12 or more members only*

6.25 As might be expected, this was not particularly common. The question was not worded to differentiate giving one-to-one financial advice to all members in a class and giving such advice to some members in the class, so these responses might represent an overestimate of the proportions of members actually receiving advice. In defined-benefit schemes such advice was restricted to a small minority of active employee members and negligible numbers of pensioner and deferred members. In defined-contribution schemes such advice was more common, possibly reflecting the greater risks that members of such schemes experience, but still available only to a minority.

## Communication with non-members

6.26 Finally, schemes were asked whether illustrations of the benefits of joining the scheme were ever sent to people who were eligible to join the scheme but who had not yet joined. Figure 6.4 shows the results of the analysis of the responses to this question split by industry.

Figure 6.4 Active employee members of schemes by industry whether schemes inform non-members of possible benefits of joining



## Chapter 7 – Features of defined-contribution schemes

7.1 Defined-contribution schemes have been growing in popularity over the medium term, as measured by the proportion of active employee members who are members of defined-contribution schemes. Whereas the Government Actuary's surveys of occupational pension schemes focussed most on defined-benefit schemes until 1995, the surveys as at 2000 and 2004 had increased coverage of defined-contribution schemes.

7.2 However there is still more to investigate about defined-contribution schemes. The three key factors in determining the size of the assets available for members of a defined-contribution scheme at retirement are:

- the contributions paid into the scheme;
- the investment return earned on the assets representing the accumulation of those contributions; and
- the charges applied to the contributions paid and to the accumulated assets.

The rate at which accumulated assets can be converted into pension at retirement age is a further key factor affecting the retirement income that members will receive.

7.3 Contributions into scheme (both defined-benefit and defined-contribution) are discussed in chapter 8 of this report, and were also covered in the 2004 survey. The methods that defined-contribution schemes adopt to turn accumulated assets into pensions was covered in the 2004 survey (chapter 5). This chapter looks at aspects of the investment returns earned on the assets in defined-contribution schemes and on the charges applied to members' contributions and accounts.

## Investment of members' contributions – rates of return

7.4 Schemes were asked for the average return achieved during the last scheme year on the default investment choice. For most schemes this was the scheme year ending in or around April 2005 (being the last full scheme year for which accounts were available as at the time the survey questionnaires were being completed). Results are given in table 7.1 overleaf, separately for insured and non-insured schemes.

Table 7.1 Scheme sections by status, insured or not and average return achieved during the last scheme year. Defined-contribution schemes and scheme sections only

<u>Returns range</u>	number of scheme sections						
	<u>Insured schemes</u>			<u>Non-insured schemes</u>			<u>No response</u>
	<u>Open</u>	<u>Closed</u>	<u>Frozen</u>	<u>Open</u>	<u>Closed</u>	<u>Frozen</u>	
Under 5%	162	255	..	142	..	..	..
5% to under 10%	367	..	..	30	..	..	..
10% to under 15%	201	..	..	453	..	..	179
15% to under 20%	..	..	..	34	..	..	..
20% and over	..	..	..	45	26	..	6
No response	322	..	..	405	165	..	340
<b>Total</b>	<b>1,300</b>	<b>327</b>	<b>86</b>	<b>1,110</b>	<b>350</b>	<b>129</b>	<b>2,160</b>

*Includes schemes with 12 or more members only*

*Results which are based on fewer than 3 responses have been suppressed, as denoted by “..”*

*Results may not sum to the total shown due to rounding. Results are rounded to 3 significant figures*

7.5 There was a considerable range of investment returns. This, in part, reflects differences in the funds schemes nominate as default funds. Insured schemes seem to have a slightly lower average return than non-insured schemes.

## “Lifestyle” investments

7.6 Some schemes practise “lifestyling”. This is an asset allocation strategy in which a member’s investments are adjusted depending on the member’s age and term to retirement. Typically a member’s investments are progressively moved out of equities and into bonds as the member gets closer to her or his retirement age. This is intended to offer partial protection to the member against movements in asset and annuity prices as the pension date approaches.

7.7 Schemes were asked whether they practised “lifestyling” as the only investment option, as a default investment option, at the active choice of the member, or never. Schemes which practised life-styling were asked for details of how the arrangement worked. Table 7.2 reports results of whether schemes practise life-styling.

Table 7.2 Non-pensioner members of defined-contribution schemes and sections by scheme size and whether “lifestyling” practised

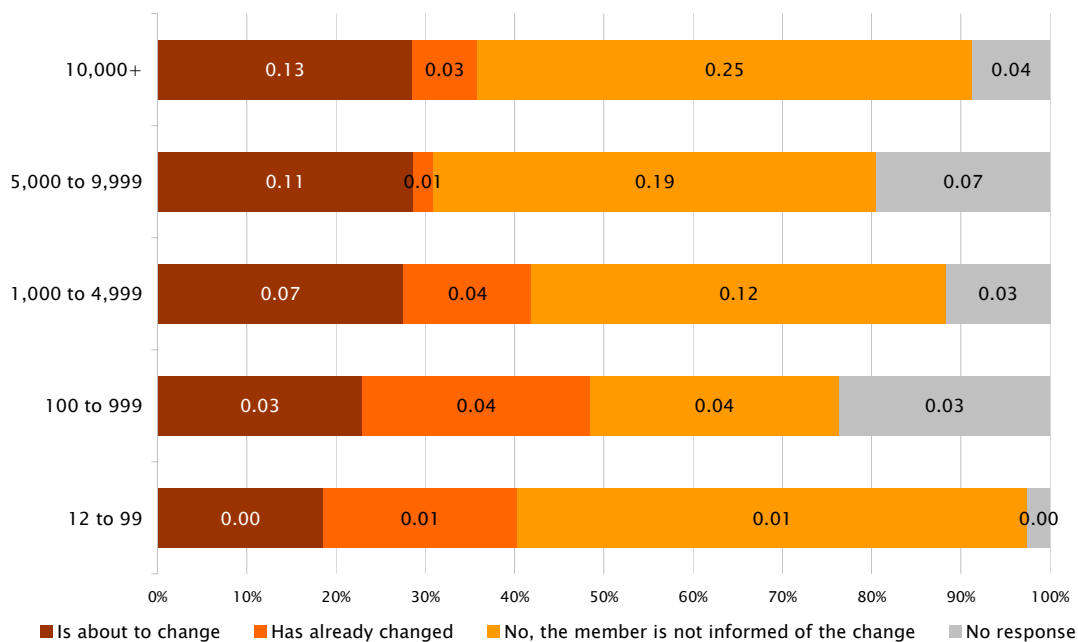
millions						
<u>Scheme size</u> <u>(total membership)</u>	<u>Lifestyling is</u> <u>always used</u>	<u>Default option</u> <u>but others can</u> <u>be chosen</u>	<u>An option but</u> <u>not the default</u>	<u>Lifestyling is</u> <u>not practised</u> <u>in this scheme</u>	<u>No</u> <u>response</u>	<u>Total</u>
10,000+	0.05	0.34	0.06	0.23	0.04	<b>0.71</b>
5,000 to 9,999	0.03	0.22	0.13	0.01	0.02	<b>0.42</b>
1,000 to 4,999	0.06	0.11	0.10	0.03	0.02	<b>0.31</b>
100 to 999	0.04	0.09	0.02	0.07	0.03	<b>0.25</b>
12 to 99	0.01	0.01	0.00	0.07	0.03	<b>0.13</b>
<b>Total</b>	<b>0.19</b>	<b>0.76</b>	<b>0.31</b>	<b>0.42</b>	<b>0.14</b>	<b>1.83</b>

*Includes schemes with 12 or more members only*

7.8 A further question about “lifestyling” sought to explore what asset mixes were used at different points during membership. The results were not susceptible to tabular or graphical presentation. However the most common approach was to move from 100% of the member’s investments being in equities at 20 years before retirement to a mixture of 25% in cash and 75% in bonds at retirement (this mixture is designed to provide the most protection against volatility in asset and annuity prices for a member who plans to take the maximum tax-free lump sum at retirement and to buy an annuity with the remaining three-quarters of the fund).

- 7.9 However, a number of schemes used a different mixture of cash and bonds for investment at retirement – both 80%-20% and 70%-30% as bond-cash splits were common. Some schemes reported final asset allocations as divergent as 100% in bonds or alternatively 100% in cash. A few schemes reported that the “lifestyling” investment mix at retirement age still included some equities (generally no more than 10%, but very occasionally higher).
- 7.10 For most schemes the move from the investment allocation for those a considerable number of years from retirement to that thought appropriate at retirement did not start until the member had less than 10 years until retirement age.
- 7.11 Some schemes which practise “lifestyling” inform the member of automatic age-related changes to their investments as part of communication with members. Figure 7.1 shows what proportion of scheme members are in schemes which inform their members, either before or after any investment change. Given that such changes are meant to be automatic, and have probably been described in general scheme documentation about the investment choices on offer, it is perhaps not surprising that members are frequently not told explicitly of such changes.

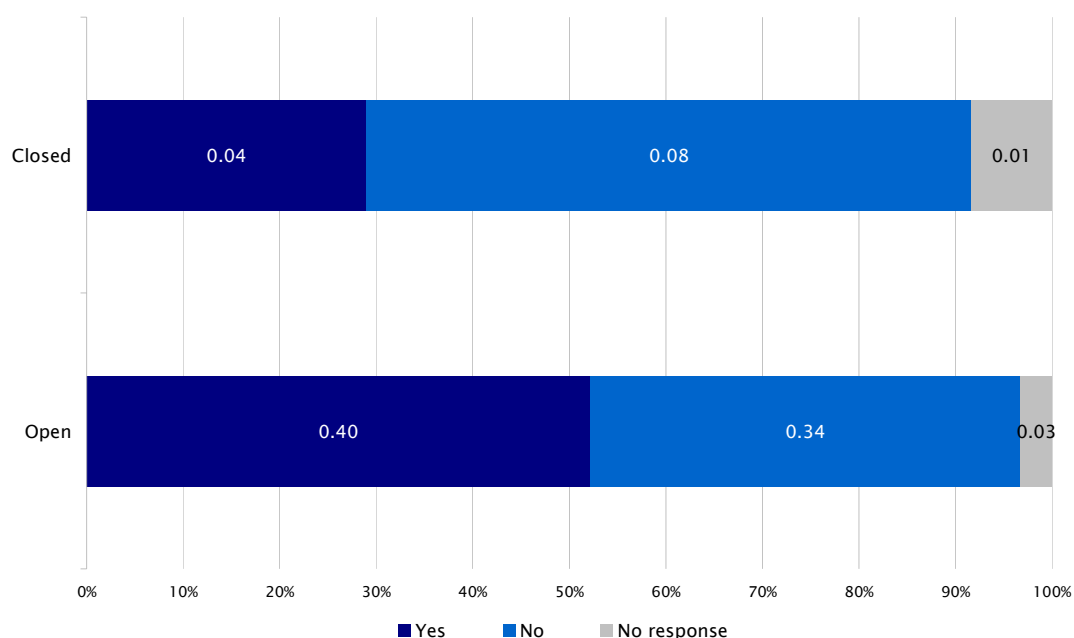
Figure 7.1 Non-pensioner members of defined-contribution schemes and sections which practise “lifestyling” by scheme size and whether schemes inform members of changes to investment mix



## Charges to members' accounts

7.12 Figure 7.2 shows the proportions of members of defined-contribution schemes by scheme status and according to whether explicit charges are made to their accounts. Where no explicit charges are made to members' accounts, charges may be implicit in that rates of investment return added to the members' accounts are lower than the full return actually earned on scheme assets. Alternatively, the expenses of administering the scheme may be met by the sponsoring employer rather than from charges levied on members' accounts.

Figure 7.2 Active employee members of defined-contribution schemes and sections by status and whether explicit charges made to members' accounts.



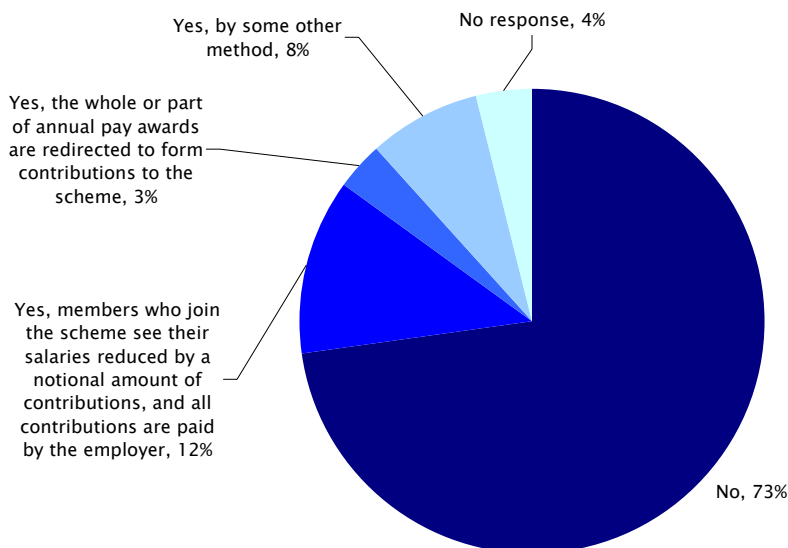
7.13 Although schemes were asked for more details of their charging structures, the responses did not permit a full analysis. Given the considerable interest in the effect of charges on pension outcomes in defined-contribution schemes, this area might usefully be the subject of further research.

## “Salary sacrifice” arrangements in defined-contribution schemes

7.14 Defined-contribution schemes were asked whether they operated any “salary sacrifice” arrangements. Under such an arrangement, members’ contributions to schemes are made entirely by the employer, with the employee accepting a lower “headline” rate of pay (such arrangements can serve to reduce National Insurance contributions for both employees and employer). Employees may also agree to forego a portion of any future pay increases in return for ever higher employer contributions to the scheme. Schemes were asked for some details of their arrangement where they had one: figure 7.3 provides an overview of the responses.

7.15 Those schemes confirming that they operate a “salary sacrifice” arrangement were asked whether these arrangements were voluntary, compulsory or a combination of both. Responses for this question were very sparse; however, most of the schemes that did respond confirmed that the arrangement was voluntary. A small handful answered compulsory or both.

Figure 7.3 Percentage of active employee members of defined-contribution schemes by whether member contributions are paid by a “salary sacrifice” arrangement.



## Chapter 8 – Contributions to schemes

- 8.1 Generally, both the members and the sponsoring employer make contributions towards the cost of the benefits provided by a pension scheme. The exact division of cost varies from scheme to scheme and some schemes are non-contributory for their members. In defined-benefit schemes, the assessed cost varies from time to time and the employer may be required to make additional contributions if there is a surplus, and cease or reduce contributions for a period (a contributions holiday).
- 8.2 Schemes were therefore asked for the structure of the contributions, made by both members and sponsoring employers. This chapter presents the results of questions about regular contributions, additional voluntary contributions, projections of benefits provided to members.
- 8.3 It should be noted that the results in this chapter are solely for schemes with 12 or more members, whether open or closed, and relate to the situation as at April 2005.
- 8.4 Table 8.1 shows whether contributions were being made by employee members or by employers as at April 2005. All defined-contribution schemes should have contributions from employers.

Table 8.1 Numbers of scheme sections by size and whether employer or employee contributions are made or not.

(i) defined-benefit employer contributions

number of scheme sections				
<u>Scheme size</u> <u>(total membership)</u>	<u>Contributions are</u> <u>made</u>	<u>No contributions</u> <u>are made</u>	<u>No response</u>	<u>Total</u>
10,000+	217	16	19	252
5,000 to 9,999	183	7	13	204
1,000 to 4,999	763	104	149	1,020
100 to 999	2,650	142	849	3,640
12 to 99	1,770	24	620	2,410
<b>Total</b>	<b>5,580</b>	<b>293</b>	<b>1,650</b>	<b>7,520</b>

(ii) defined-benefit employee contributions

number of scheme sections				
<u>Scheme size</u> <u>(total membership)</u>	<u>Contributions are</u> <u>made</u>	<u>No contributions</u> <u>made</u>	<u>No response</u>	<u>Total</u>
10,000+	200	42	9	252
5,000 to 9,999	163	30	11	204
1,000 to 4,999	735	148	134	1,020
100 to 999	2,440	418	778	3,640
12 to 99	1,650	138	620	2,410
<b>Total</b>	<b>5,190</b>	<b>776</b>	<b>1,550</b>	<b>7,520</b>

(iii) defined-contribution employee contributions

number of scheme sections				
<u>Scheme size</u> <u>(total membership)</u>	<u>Contributions are</u> <u>made</u>	<u>No contributions</u> <u>made</u>	<u>No response</u>	<u>Total</u>
10,000+	68	..	..	87
5,000 to 9,999	57	..	..	104
1,000 to 4,999	176	..	..	266
100 to 999	663	..	..	900
12 to 99	3,280	..	..	4,110
<b>Total</b>	<b>4,240</b>	<b>..</b>	<b>..</b>	<b>5,470</b>

*All tables: Includes schemes with 12 or more members only*

*Results which are based on fewer than 3 responses have been suppressed, as denoted by “..”*

8.5 Most contributions are expressed as a percentage of the members' salaries. However, the rate contributed by different members can vary according to a number of factors, such as their ages or lengths of service, and the same is true of the employer's contribution made on their behalf.

- 8.6 All schemes were therefore asked for the prevalent rate of contribution from both members and the sponsoring employer. It should be noted that contributions to defined-benefit schemes in the form of lump sum payments were accounted for separately from contributions made as a percentage of the member's salary; hence, contributions in the form of lump sum payments have been excluded from the analysis presented in this section.
- 8.7 Using the information provided, the weighted average contribution rates across all schemes with 12 or more members have been calculated, based on the estimates for the number of active employee members. As elsewhere in this chapter, the weighted average was based on the number of active employee members in each section of the scheme. For example, if a scheme had two defined-benefit sections, one with 50 active employee members contributing at 4 per cent and one with 100 active employee members contributing at 6 per cent, then the weighted-average rate for this scheme would be 5.33 per cent. The weighted average contribution rate for all private-sector schemes from members was 4.1 per cent, and 14.2 per cent from employers.
- 8.8 As in the 2000 and 2004 surveys, there was a clear difference between defined-benefit and defined-contribution schemes, in that contribution rates to defined-benefit schemes were generally higher than for defined-contribution schemes. In defined-benefit schemes, the weighted-average contribution from members was 4.4 per cent from members, and 16.0 per cent from employers. Contributions to defined-contribution schemes were lower, at 2.7 per cent from members and 6.3 per cent from employers.
- 8.9 The equivalent figures from the previous (2004) survey were 4.3 per cent and 14.5 per cent for defined-benefit schemes, and 2.9 per cent and 6.0 per cent for defined-contribution schemes. The 2005 estimates therefore represent an overall increase in contributions since 2004 for both types of scheme, and in particular for the employers' contributions to defined-benefit schemes. The only exception is the small reduction in members' contributions to defined-contribution schemes.
- 8.10 Greater detail on the split of scheme members between those paying contributions at different levels (or whose employers pay contributions at different levels) should be available for users of the on-line query builder (see paragraph 1.35).

8.11 A more detailed comparison of contributions between 2004 and 2005 is given in figure 8.1 parts (i) to (iv). It shows the numbers of active employee members according to the percentage contributions paid by their sponsoring employer and themselves, separately for defined-benefit and defined-contribution schemes. They have been grouped into nine bands of contribution rates, with proportions either contributing on another basis or not responding also shown. Employee contributions in very small schemes are excluded from these figures.

8.12 Figure 8.1(ii) indicates that there has been a general increase in employers' contributions to defined-benefit schemes since 2004. In 2004, the most common rate was between 12 per cent and 15 per cent; in 2005, it was 20 per cent and over. There was also a reduction in the number of active employee members in schemes where the employer either made no contribution, or where contributions are made on some other basis.

Figure 8.1 Active employee members of private-sector schemes by the percentage of salary they contribute, 2004 compared with 2005  
 (i) defined-benefit schemes, member contributions

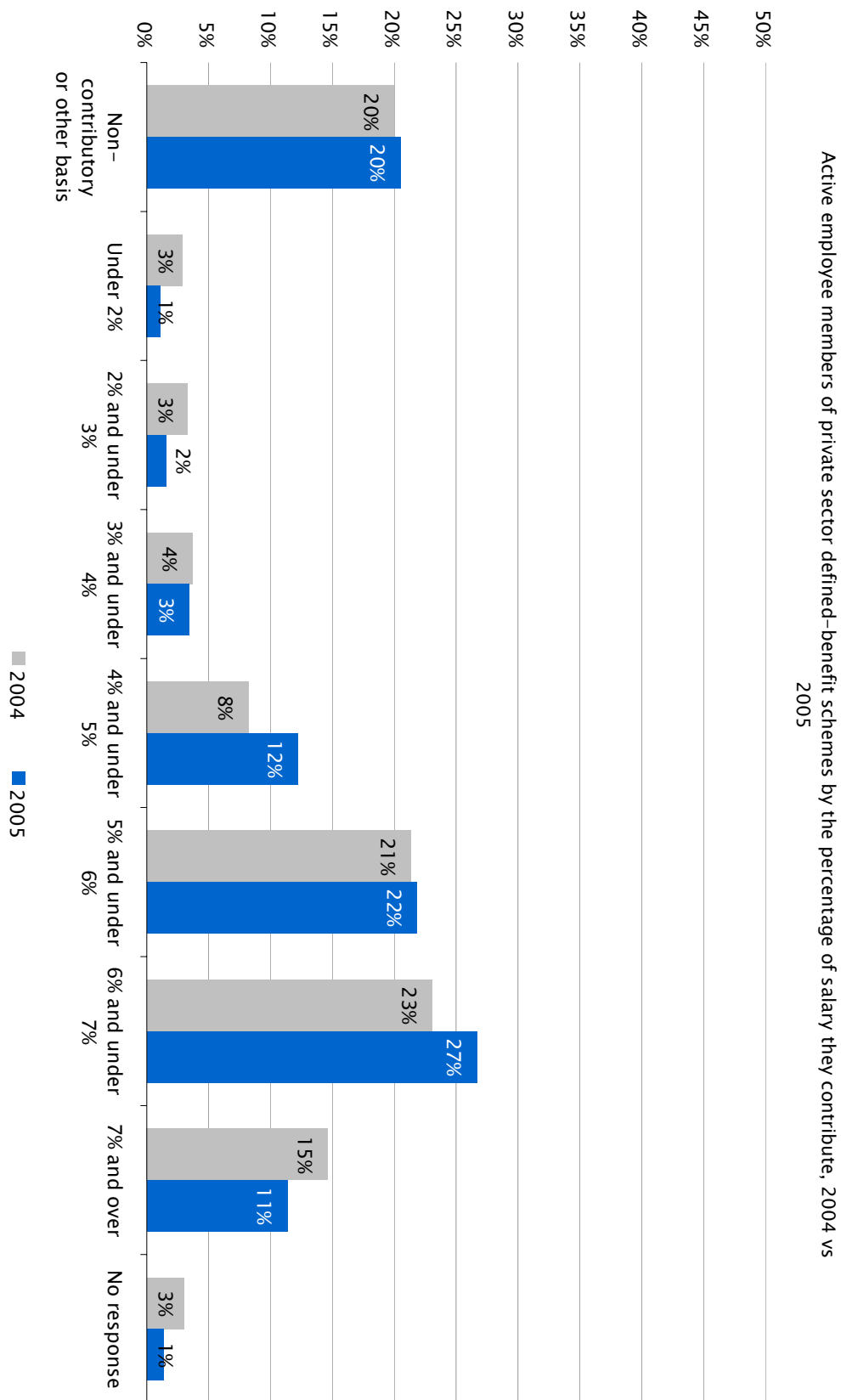


Figure 8.1 (cont) Active employee members of private-sector schemes by the percentage of salary contributed by employers, 2004 compared with 2005

(ii) defined-benefit schemes, employer contributions

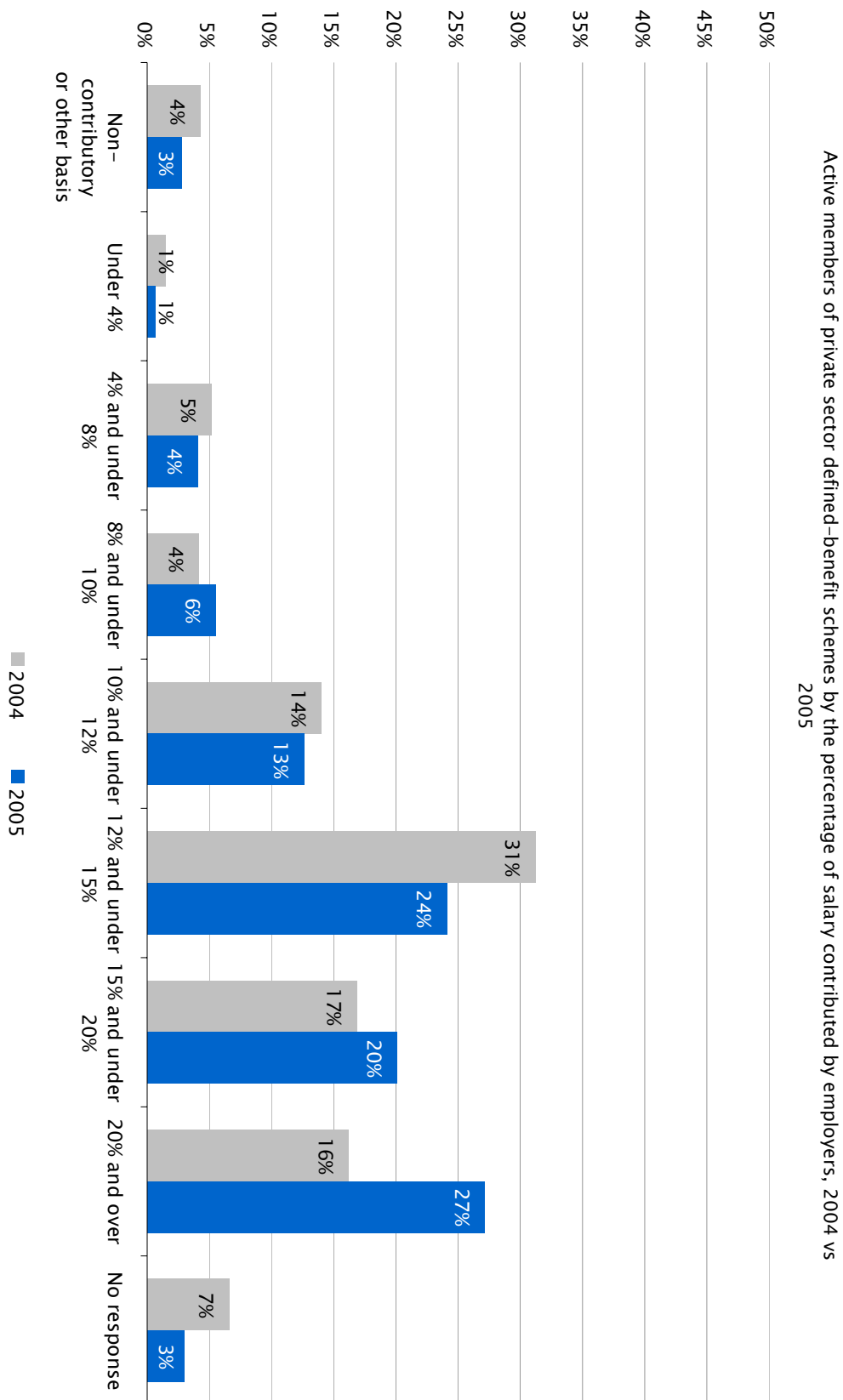


Figure 8.1 (cont) Active employee members of private-sector schemes by the percentage of salary they contribute, 2004 compared with 2005

(iii) defined-contribution schemes, member contributions

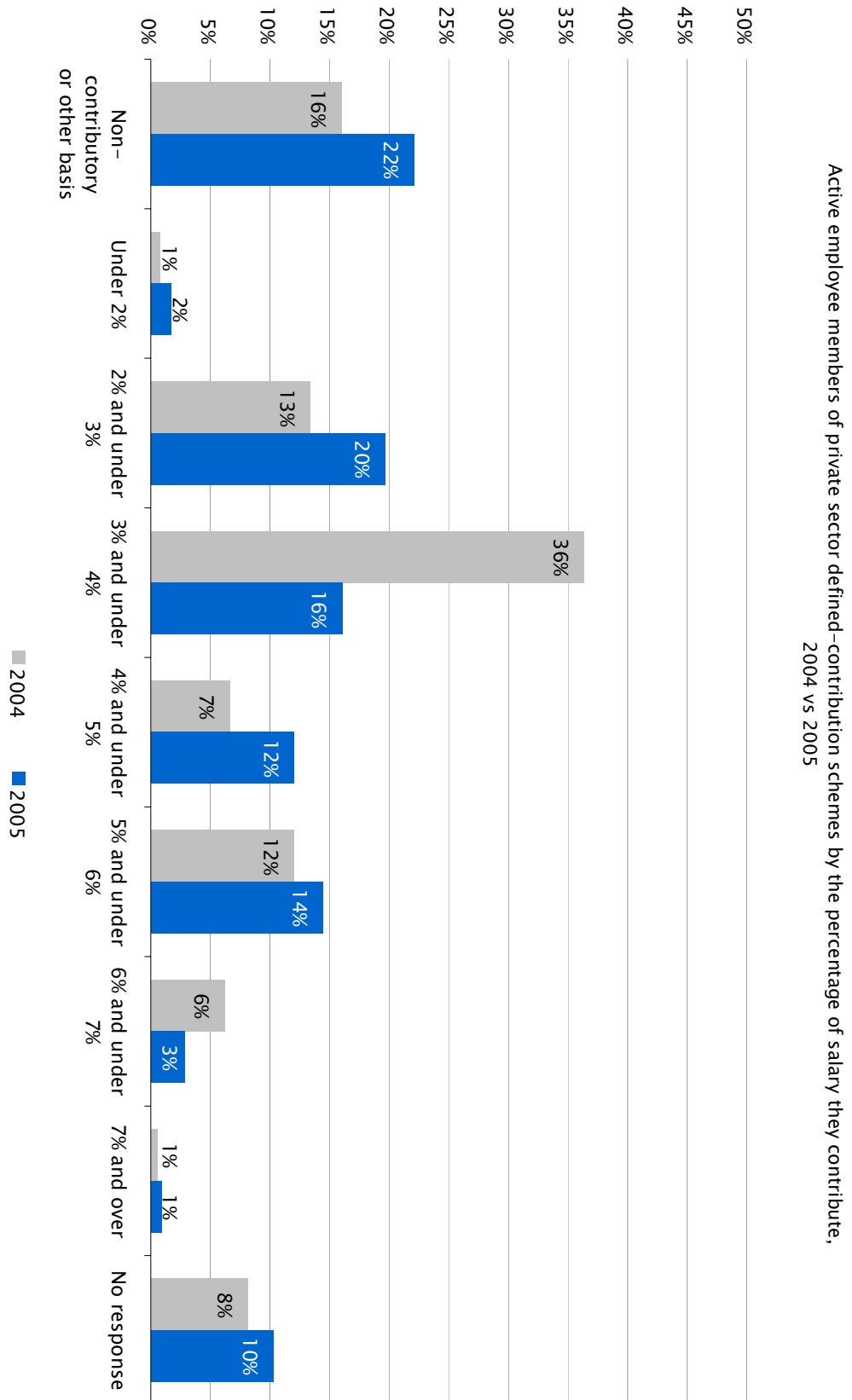
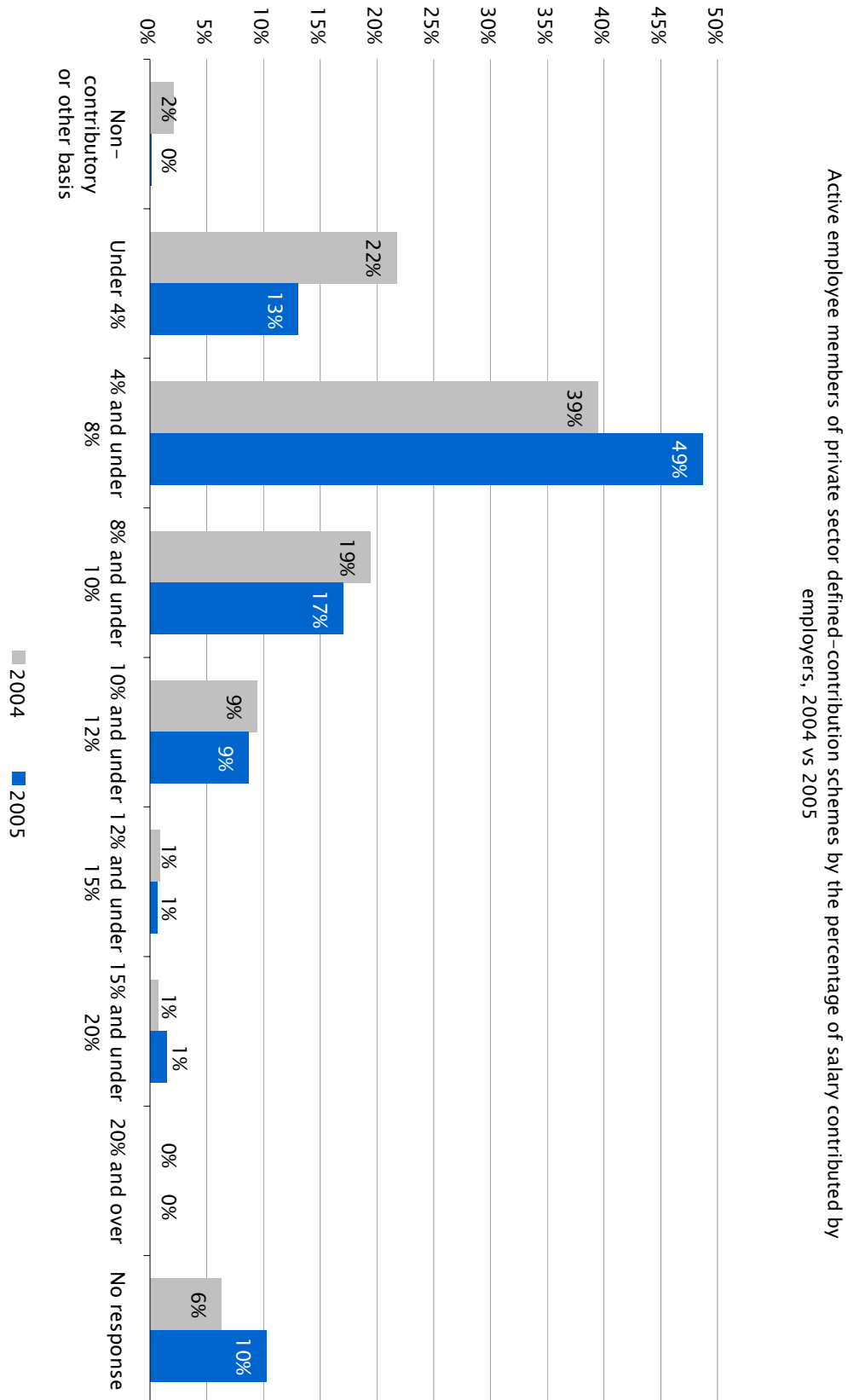


Figure 8.1 (cont) Active employee members of private-sector schemes by the percentage of salary contributed by employers, 2004 compared with 2005

(iv) defined-contribution schemes, employer contributions



8.13 Previous surveys have also detailed the average contribution rates for schemes of different sizes. Table 8.2 shows the 2005 average contribution rate for each size band (excluding schemes with fewer than 12 members, as before), weighted by the number of active employee members.

Table 8.2 Weighted-average contribution rates by scheme size

<u>Scheme size</u> <u>(total membership)</u>	per cent					
	<u>Defined-benefit</u>			<u>Defined-contribution</u>		
	<u>Member</u>	<u>Employer</u>	<u>Total</u>	<u>Member</u>	<u>Employer</u>	<u>Total</u>
10,000+	4.0	16.5	20.5	2.8	6.8	9.6
5,000 to 9,999	4.7	16.9	21.6	1.7	6.5	8.2
1,000 to 4,999	5.1	13.2	18.3	3.0	5.0	8.0
100 to 999	5.0	15.7	20.8	3.1	6.2	9.4
12 to 99	4.3	19.8	24.1	3.9	5.9	9.9

*Includes schemes with 12 or more members only*

*Includes schemes where standard contributions were zero*

8.14 Likewise, table 8.3 shows the average contribution rates for schemes of different statuses.

Table 8.3 Weighted-average contribution rates by scheme status

<u>Benefit type</u>	per cent					
	<u>Member contributions</u>		<u>Employer contributions</u>		<u>Total contributions</u>	
	<u>Open</u>	<u>Closed</u>	<u>Open</u>	<u>Closed</u>	<u>Open</u>	<u>Closed</u>
Defined-benefit schemes	4.9	3.6	13.9	18.8	18.8	22.4
Defined-contribution schemes	2.7	2.6	6.0	8.0	8.7	10.6

*Includes schemes with 12 or more members only*

*Includes schemes where standard contributions were zero*

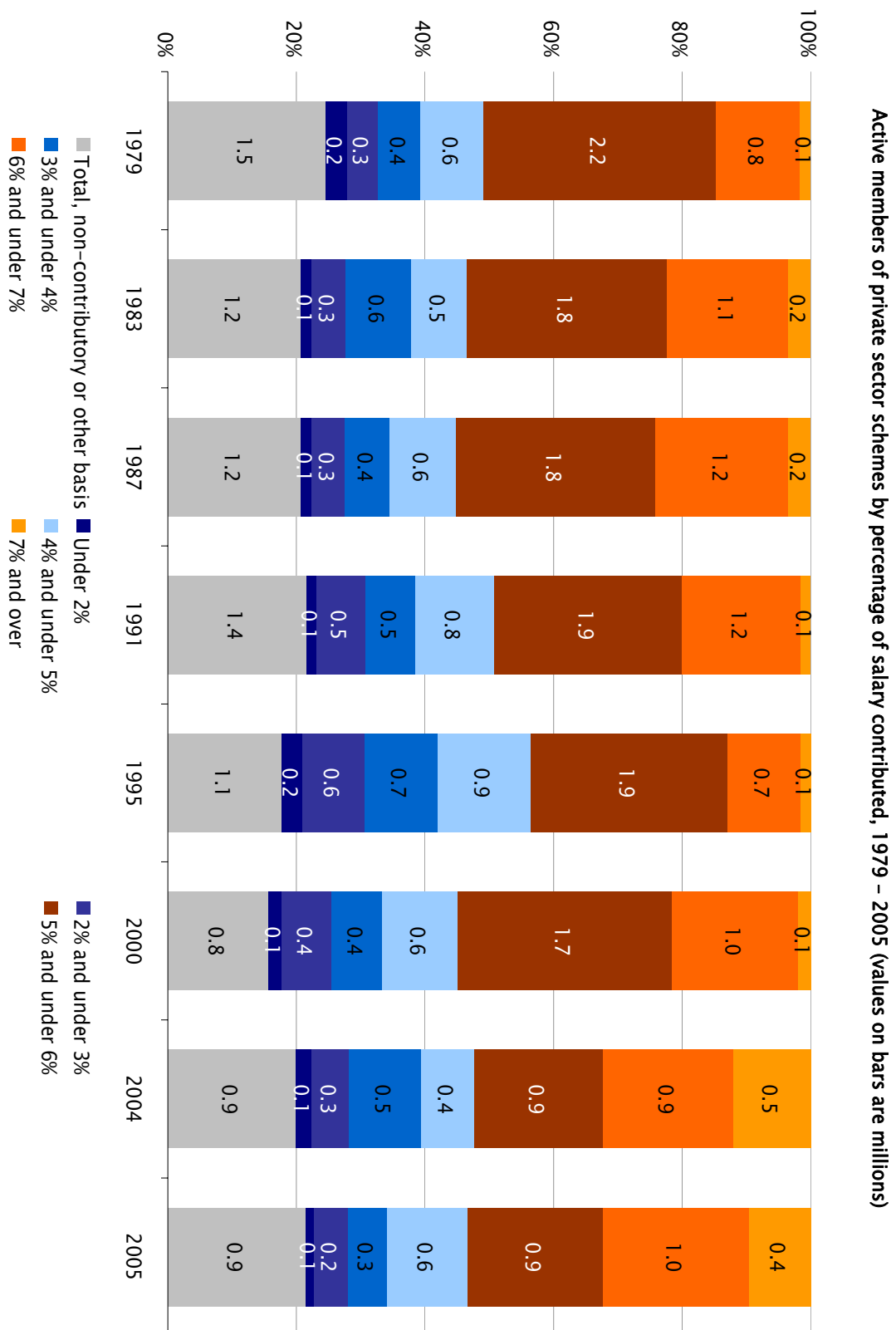
## **Contributions to private-sector defined-benefit schemes in the form of lump sum payments**

- 8.15 As noted earlier, some employers made contributions to defined-benefit schemes not as a percentage of the member's salary, but as a lump sum payment. These could be regular or irregular in nature, and could be in addition to, or instead of, contributions made as a percentage of earnings.
- 8.16 Where payments were made in the form of a lump sum, schemes were asked to give details of these payments, as set out under the scheme rules. Of the schemes responding to the survey, approximately one in three made contributions in this way. In the majority of these cases, the contributions were in addition to, rather than instead of, contributions based on percentages of members' salaries.
- 8.17 The amounts contributed by these schemes varied considerably, with annual payments ranging between a few thousand pounds for smaller schemes to over £100 million pounds for some of the largest schemes. For schemes with over 1,000 active employee members, and where contributions were in addition to those from members' salaries, an average of around £5,000 a year for each active member was being contributed in 2005.

## **History of contribution rates**

- 8.18 It is possible to compare the 2005 results with those from previous surveys. Occupational pension scheme surveys have contained information on contribution rates paid by employees since 1979, and figure 8.2 overleaf shows how the proportions of active employee members contributing at various rates have developed since then.
- 8.19 As figure 8.2 shows, there has been little change in the different contribution bands since 2004.

Figure 8.2 Active employee members of private-sector schemes by percentage of salary contributed, 1979 - 2005



## Contributions by contracted-out status

8.20 It is possible to divide active employee members into two groups: those who are in schemes which are contracted out, and those who are in schemes which are not contracted out. It is therefore possible to present the rates contributed by each of these groups. Table 8.4 shows the results of this part of the survey, with active employee members further split into the same bands of contribution rates that were used earlier in the chapter.

Table 8.4 Active employee members of private-sector schemes by contribution rates and contracted-out (CO) status

### (i) member contribution rate

millions

<u>Member contribution rate</u>	<u>Defined-benefit</u>			<u>Defined-contribution</u>			<u>All schemes</u>		
	<u>CO</u>	<u>Not CO</u>	<u>Total</u>	<u>CO</u>	<u>Not CO</u>	<u>Total</u>	<u>CO</u>	<u>Not CO</u>	<u>Total</u>
Under 2%	0.0	-	0.0	0.0	0.0	0.0	0.0	0.0	0.1
2% and under 3%	0.1	0.0	0.1	0.0	0.2	0.2	0.1	0.2	0.2
3% and under 4%	0.1	0.0	0.1	0.0	0.1	0.1	0.1	0.2	0.3
4% and under 5%	0.4	0.0	0.4	0.0	0.1	0.1	0.4	0.1	0.6
5% and under 6%	0.8	0.0	0.8	0.0	0.1	0.1	0.8	0.2	0.9
6% and under 7%	0.9	0.0	1.0	0.0	0.0	0.0	1.0	0.0	1.0
7% and over	0.4	0.0	0.4	0.0	0.0	0.0	0.4	0.0	0.4
Total, paying percentages	2.7	0.1	2.9	0.1	0.5	0.6	2.8	0.7	3.5
Total, non-contributory or other basis	0.7	0.0	0.7	0.0	0.2	0.2	0.7	0.2	0.9
No response	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.1	0.1
<b>Total</b>	<b>3.5</b>	<b>0.2</b>	<b>3.7</b>	<b>0.1</b>	<b>0.8</b>	<b>0.9</b>	<b>3.6</b>	<b>1.0</b>	<b>4.5</b>

### (ii) employer contribution rate

millions

<u>Employer contribution rate</u>	<u>Defined-benefit</u>			<u>Defined-contribution</u>			<u>All schemes</u>		
	<u>CO</u>	<u>Not CO</u>	<u>Total</u>	<u>CO</u>	<u>Not CO</u>	<u>Total</u>	<u>CO</u>	<u>Not CO</u>	<u>Total</u>
Under 4%	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1
4% and under 8%	0.1	0.0	0.1	0.0	0.4	0.4	0.2	0.4	0.6
8% and under 10%	0.1	0.1	0.2	0.0	0.1	0.2	0.2	0.2	0.4
10% and under 12%	0.4	0.0	0.5	0.0	0.1	0.1	0.5	0.1	0.5
12% and under 15%	0.8	0.0	0.9	0.0	0.0	0.0	0.8	0.0	0.9
15% and under 20%	0.7	0.0	0.7	0.0	0.0	0.0	0.7	0.0	0.7
20% and over	1.0	0.0	1.0	0.0	0.0	0.0	1.0	0.0	1.0
Total, paying percentages	3.3	0.2	3.4	0.1	0.7	0.8	3.4	0.9	4.2
Total, non-contributory or other basis	0.1	0.0	0.1	0.0	0.0	0.0	0.1	0.0	0.1
No response	0.1	0.0	0.1	0.0	0.1	0.1	0.1	0.1	0.2
<b>Total</b>	<b>3.5</b>	<b>0.2</b>	<b>3.7</b>	<b>0.1</b>	<b>0.8</b>	<b>0.9</b>	<b>3.6</b>	<b>1.0</b>	<b>4.5</b>

*Both tables include schemes with 12 or more members only  
Results may not sum to totals shown due to rounding*

## Structures for contributions to defined-contribution schemes

8.21 In the final section on normal contributions to private-sector schemes, the survey considers the structure of contribution rates used by some defined-contribution schemes. Whilst defined-benefit schemes were asked simply for the most common contribution rate, defined-contribution schemes were also asked to describe any way in which a member's contributions might vary according to that member's circumstances. The ways in which contribution rates could vary among members were considered as follows:

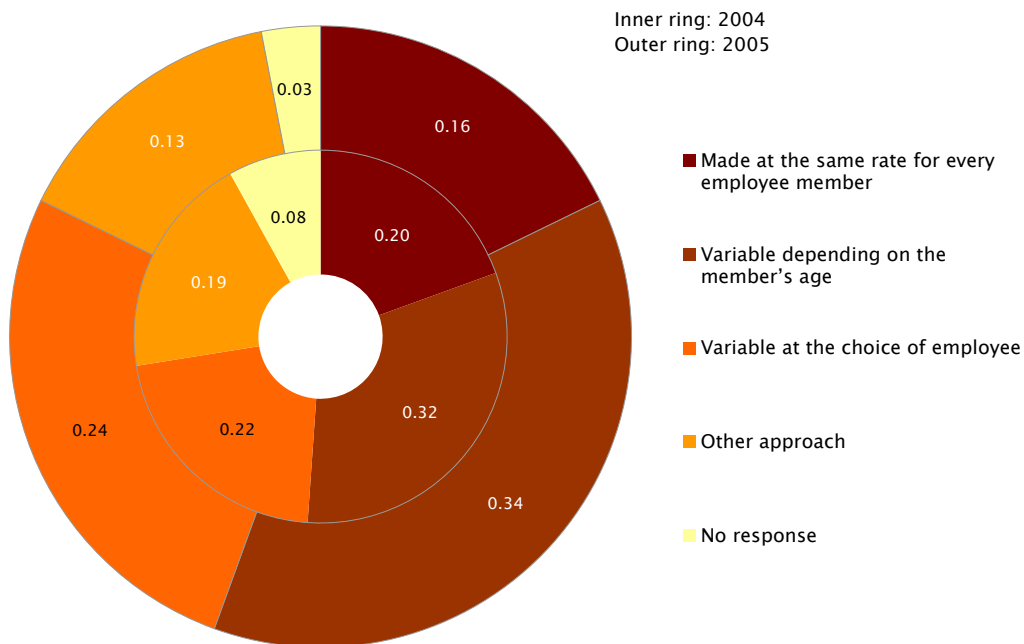
- a) by age; rates for both the member and the employer at ages 20, 35 and 50 were sought;
- b) by length of service - rates for both the member and the employer at entry, after 5 years and after 10 years were sought;
- c) at the choice of the member - the highest and lowest possible rates from the member were sought, together with the corresponding rate from the employer in each case;
- d) by being calculated separately for each individual member, so as to target a particular level of benefit at retirement; or
- e) by some other approach, in which case schemes were asked to describe the approach taken.

8.22 Responses indicated that just under four out of five active employee members of defined-contribution schemes were in a scheme in which there was some variation in contribution rates among members.

8.23 The most common way in which contributions varied was by the member's age. Around a quarter of members were able to choose their own contribution rates (the third option above). Very few schemes used either length of service or individual targeting as a means of varying contribution rates. The individual targeting approach is slightly more common for very small defined-contribution schemes, which are often for senior members of staff in organisations.

8.24 Figure 8.3 shows these results graphically, which as elsewhere are in terms of the proportion of active employee members in defined-contribution schemes with 12 or more members.

Figure 8.3 Active employee members of defined-contribution schemes by structure of contributions (millions)



8.25 In addition to the contributions outlined above, defined-contribution schemes were asked whether their schedule of payments specified either lump sum contributions from the employer - instead of or as well as contributions as a percentage of earnings - or contributions to meet scheme expenses. A very small proportion of respondents answered this question, with a handful stating that they made lump sum payments. A few responded that the administrative expenses of the scheme were met by the employer. Few responded that the employer was making lump sum contributions.

## Additional voluntary contributions (AVCs)

8.26 Since 1988, all schemes have had to offer a facility for active employee members to make additional voluntary contributions (AVCs), allowing them to secure benefits over and above those normally provided by the scheme. This requirement has now been removed but it was in force at the time of the survey field-work.

8.27 These benefits can take a number of different forms, depending on the scheme rules. Money-purchase (defined-contribution) benefits, whereby the AVC is invested on behalf of the member, are often provided by all types of scheme. Some defined-benefit schemes allow members to purchase added years (additional years of pensionable service) and there are also a few other benefits available in some schemes, such as a fixed extra pension at retirement.

Table 8.5 Percentage of active employee members making additional voluntary contributions by size and type of scheme

Scheme size (total membership)	per cent of active members		
	<u>Defined-benefit</u>	<u>Defined-contribution</u>	<u>Total</u>
10,000+	9%	14%	<b>10%</b>
5,000 to 9,999	8%	12%	<b>10%</b>
1,000 to 4,999	11%	19%	<b>13%</b>
100 to 999	8%	14%	<b>9%</b>
12 to 99	4%	14%	<b>10%</b>
<b>Total</b>	<b>9%</b>	<b>14%</b>	<b>10%</b>

*Includes schemes with 12 or more members only*

8.28 Table 8.5 shows that it is estimated that around 10 per cent of active employee members – approximately 400,000 – of private-sector schemes which responded were paying AVCs in 2005.

8.29 Responses indicated that a higher proportion of members of defined-contribution schemes and sections (14 per cent) were paying AVCs than members of defined-benefit schemes and sections (9 per cent).

8.30 The 2005 survey showed a decrease in the numbers of members making additional voluntary contributions compared with the 2000 and 2004 surveys. Overall, since 2004, the total amount of active employee members making additional voluntary contributions has fallen by 3 per cent. The reduction is less marked when compared to the 2000 survey, where it has reduced only by 1 per cent.

## Chapter 9 – Very small schemes

- 9.1 Occupational pension schemes which have between two and eleven members are referred to in this document as very small schemes. The legislation relating to these schemes differs in some respects from that relating to larger schemes. In addition, some of these schemes are unusual in that they target a particular level of benefit, and also because, in many cases, all of their members are trustees. Partly because of this, very small schemes were sent a shorter questionnaire than that sent to other defined-benefit and defined-contribution schemes, as many of the more detailed questions on scheme benefits would not apply to them.
- 9.2 In this chapter, we present the results of the information received from very small schemes. It should be noted that comparatively few responses were received from this category of scheme. Responses in 2005 amounted to 44. Although this represented 10 more responses than for very small schemes in 2004, the results presented in this chapter are less robust than those for larger schemes.
- 9.3 As shown in chapter 2, just under eight out of ten private-sector occupational pension schemes are very small schemes. However, and as shown in chapter 3, they account for only 3 per cent of the active employee membership of private-sector occupational pension schemes – that is, around 140,000 of all active employee members – as the bulk of active employee membership of private-sector occupational pension schemes is concentrated in the small number of much larger schemes.
- 9.4 Very small schemes were asked for the basis on which benefits at retirement were given. From the responses received, it is estimated that 91 per cent of small schemes – around 48,000 – were run on a defined-contribution basis. The remaining 9 per cent of schemes (around 5,000) were either defined-benefit in nature, or gave benefits at retirement on a hybrid basis. This included those paying contributions which are calculated and regularly adjusted to target a particular level of benefit, without a specific commitment to provide that level of benefit.

- 9.5 Very small schemes were also asked whether they were in 2005 a small self-administered scheme (SSAS) for the purposes of treatment by HM Revenue & Customs at the time (under the 1991 regulations made under the Income and Corporation Taxes Act 1988). Around 66 per cent of very small schemes reported that they were a SSAS; a higher proportion than in 2004. However, as in 2004, this group of schemes accounted for around 60 per cent of the active employee members of very small schemes.
- 9.6 The most common number of active employee members in a scheme was 2; schemes with either 2 or 3 members accounted for around 80 per cent of very small schemes.
- 9.7 Table 9.1 shows the split of total membership between active employee members, pensions in payment and preserved pension entitlements. The low number of responses means that the confidence intervals around these estimates are wide. The comparatively low number of pensions in payment probably reflects the practice of small schemes buying out pensions with insurance companies when members reach pension age.

Table 9.1 Members of very small schemes in the private sector, 2005

	thousands
	<u>Total</u>
Active members	140
Pensions in payment	20
Preserved pension entitlements	10

*Figures are rounded to the nearest ten thousand*

- 9.8 Of the members in very small schemes, 93 per cent were in a defined-contribution scheme, with the remaining 7 per cent in schemes which were either defined-benefit, or which gave benefits at retirement on some other basis.
- 9.9 As with larger schemes, very small schemes were asked whether any restrictions were placed on who was eligible to join the scheme; this question is particularly relevant to very small schemes. From the responses received, it is estimated that around two thirds of the active employee members of very small schemes were in a scheme where eligibility was restricted to directors or senior employees.

## **Communications with members in very small schemes**

- 9.10 Of those schemes which responded, approximately 56 per cent of active employee members belong to schemes that provide projections of members' benefits annually. Roughly 41 per cent of active employee members belong to schemes where the projections are provided on request.
- 9.11 Around 58 per cent of active employee members belong to schemes that always provide the members with copies of the trustees' report and accounts. This compares with 22 per cent who belong to schemes that never provide this information. The remainder of schemes provide this information on request only.
- 9.12 A large proportion, roughly 75 per cent, of active employee members belong to schemes that never give information to non-members showing the possible pension benefits of joining the scheme. Approximately 80 per cent of these members belong to schemes that accept only senior executives as members. If executive-only schemes are excluded, the proportion of active employee members belonging to a scheme that never gives information to non-members falls to under 44 per cent.
- 9.13 A majority (82 per cent) of active employee members belonged to schemes that offer one-to-one sessions between a financial advisor and active employee members. This is very different to the proportion for larger schemes, where only 17 per cent of active employee members were in schemes offering such sessions. With respect to one-to-one sessions offered to non-members, very small schemes reported that around 15 per cent of active employee members belonged to schemes offering such benefits.

## **Contributions to very small schemes**

- 9.14 The majority of active employee members in very small defined-contribution schemes contributed at a rate fixed under the scheme rules; the average contribution rate was £340 a month per member.

## **Chapter 10 – Schemes which are winding up**

- 10.1 Another group of schemes which are likely to have different characteristics from other schemes is the group of schemes which are winding up. As with very small schemes, the schemes in this group were sent a shorter questionnaire; this was primarily because many of the questions which would otherwise be asked would not be applicable to a scheme that is winding up. It was also because of a desire to reduce the burden on the schemes concerned.
- 10.2 As with very small schemes, comparatively few responses were received from this type of scheme. Only 34 schemes returned questionnaires and so the results presented are less robust than those for schemes which are not winding up. The overall response rate was 45% and there are estimated to be around 3,000 winding up schemes in the country.
- 10.3 This section considers the results from the questions applying to schemes which were winding up as at 6 April 2005. It should be noted that any schemes which had already completed winding up by this date were excluded from the survey.
- 10.4 Schemes were asked the date when they began the winding up process. Over three quarters of schemes had started winding up in the year 2000 or after. The earliest a scheme had begun winding up was in 1994.

### **Membership of winding-up schemes**

- 10.5 It was estimated that there were around 344,000 members of schemes which were at some stage in the process of winding up. This figure comprises around 84,000 pensions in payment, and around 260,000 preserved pension entitlements. By definition, there can be no active employee members of a scheme which has begun winding up, because winding up cannot commence until the last active member has left pensionable service and become a member with a preserved pension entitlement.

### **Notification of winding up**

- 10.6 Of the schemes which responded, 66 per cent had notified the Pensions Regulator that they were winding up. This is lower than the corresponding figure in the 2004 survey (78 per cent).

- 10.7 Schemes which were winding up were asked whether they had been run on a defined-benefit or a defined-contribution basis. There are important distinctions drawn in the legislation relating to winding-up schemes according to whether a scheme is defined-benefit or defined-contribution. As elsewhere in the survey, “hybrid” schemes, in which benefits can be based on either method, or a “better of” approach were classed as being defined-benefit schemes.
- 10.8 Approximately two-thirds of winding-up schemes were defined-contribution; however, eight out of ten members were in defined-benefit schemes. This is consistent with defined-contribution schemes generally being smaller on average than defined-benefit schemes amongst schemes which are not winding up.
- 10.9 Schemes were also asked about the solvency of the sponsoring employer or employers, as insolvency of the employer is often the reason why schemes begin to wind up. From the responses received, around half of members were in schemes which had begun to wind up due to the insolvency of the sponsoring employer or employers. Of these, it seemed that the majority were in a scheme where the sponsoring employer(s) had gone into liquidation, as opposed to administrative receivership.
- 10.10 All winding-up schemes were asked how frequently the trustees communicated with members about the process of winding up. Approximately three-quarters of members belong to schemes where trustees communicate with members either on an annual basis or once every six months.
- 10.11 Additionally, all schemes were asked to confirm their administration arrangements. Around 70 per cent of members belong to schemes that had not appointed a specialist third party administrator to handle the winding up of the scheme.
- 10.12 Schemes were also asked to give details of their expenses for each stage of the winding-up process. Responses to this question were limited for the schemes in the upper size bands with the result that analysis is not possible on that data. For schemes with 100-999 members, the average total spent on winding up was £600,000. This figure is heavily distorted by one scheme that specified expenses that were, proportionately, a lot higher than those of the other schemes in that size band. Schemes with 12-99 members gave an average cost of £50,000 to complete the winding up process. Again, it must be borne in mind that this figure is based on a small number of responses and may not be reflective of the true situation.

10.13 Finally, all of these schemes were asked for their progress in winding up, as measured against a series of milestones. Whilst it was evident that most of the schemes had been winding up for over a year, there was no single point which all schemes had yet to complete.

## Chapter 11 – Changes to pension schemes

- 11.1 It has been widely reported that in recent years many private-sector schemes have changed their benefits or other features, with a particular focus on defined-benefit schemes closing to new members. However, a change in status is not the only way in which a scheme can change its rules, with increases to the normal pension age, reductions in accrual rates and changes to early retirement benefits among the other possible alterations.
- 11.2 This chapter considers the changes which have taken place since the previous survey in 2004. Schemes in the survey with 12 or more members, and not in the process of winding up, were asked whether there had been any changes to the scheme since 6 April 2004, and if so, which of a list of possible changes had been implemented. The results are presented below in tables 9.1 and 9.2.
- 11.3 For defined-benefit schemes and sections of schemes the most common change to was the increases in rates of contribution from the employer; 23 per cent of active employee members were in a scheme, or section of a scheme, where such a change in the employer contribution rate had occurred since 6 April 2004.
- 11.4 The next most common change for defined-benefit schemes and sections of schemes was an increase in employee contribution rates (16 per cent of members).

Table 11.1 Changes to defined-benefit schemes, by proportion of total active employee membership of defined-benefit schemes

• Increases in rates of contribution from the employer	23%
• Increases in rates of contribution from the members	16%
• Other changes to the definition of pensionable earnings/final pensionable earnings	7%
• Changes to eligibility rules for other reasons	6%
• Active employee members have been given the choice of a reduced accrual rate, or the same accrual rate but with increased member contributions	4%
• Reduction in rates of contribution from the members	3%
• Scheme closed to new entrants (with an alternative offered)	3%
• Reductions in accrual rates	3%
• Other changes to rates of contribution, where the overall effect of the change cannot be discerned	2%
• Raising of the scheme's normal pension age	1%
• Benefits are now offered on a career-average basis	1%
• Reduction in rates of contribution from the employer	1%
• Changes to accrued rights under section 67 of the Pensions Act 1995	0%
• Change to contracting out status or method	0%
• Increases in accrual rates	0%
• Changes to rules on integration	0%
• Changes to contributions (including complete cessation) in respect of a group of members who entered the scheme as part of a TUPE transfer	0%
• Lowering of the scheme's normal pension age	0%
• Changes to scheme rules to permit a refund of surplus to the sponsoring employer	0%

11.5 The most common change to defined-contribution schemes and sections of schemes was, like 2004, to the range of funds offered, with 17 per cent of active employee members in a scheme which made such a change. A small proportion of active employee members (8 per cent) were in a scheme which had raised the normal pension age.

Table 11.2 Changes to defined-contribution schemes, by proportion of total active employee membership of defined-contribution schemes

• Changes to range of funds offered	17%
• Raising of the scheme's normal pension age	8%
• Changes to eligibility rules for other reasons	6%
• Changes to contributions (including complete cessation) in respect of a group of members who entered the scheme as part of a TUPE transfer	6%
• Increases in rates of contributions from either employees or employer	4%
• Scheme closed to new entrants (with an alternative offered)	3%
• Reductions in rates of contributions from either employees or employer	2%
• Lowering of the scheme's normal pension age	1%
• Other changes to rates of contribution, where the overall effect of the change cannot be discerned	0%
• Change to contracting out status or method	0%

11.6 Defined-contribution schemes and sections of schemes were also asked whether the defined-contribution scheme or section was in some sense a replacement for a defined-benefit scheme.

Table 11.3 Percentage of active employee members of defined-contribution schemes by whether the employer previously ran a defined-benefit scheme and the current scheme is a replacement

• Defined-contribution scheme is replacement	55%
• Defined-contribution scheme runs alongside	7%
• No defined-benefit scheme previously	31%
• No response	7%

## Future changes

11.7 Schemes were asked whether any changes were planned in the near future in response to changes being made or proposed to pensions legislation and the wider pensions landscape. Results for this question are given in table 11.4 below.

Table 11.4 Proportion of active employee membership of schemes by scheme type and whether changes to schemes are being considered in response to recent or forthcoming events

	Defined-benefit	Defined-contribution
• Following pension tax simplification measures introduced on 6 April 2006 (A-day)	44%	38%
• Following the second report of the Pensions Commission	5%	2%

11.8 Defined-benefit schemes were asked about a range of possible changes that might be under consideration. Results for this question are given in table 11.5 below.

Table 11.5 Proportion of total active employee membership of defined-benefit schemes, by whether the sponsoring employer is considering particular changes to the scheme

• Change to a career-average basis of calculating benefits as opposed to final salary	10%
• Closing the scheme to new entrants (with an alternative offered)	7%
• New entrants to be offered money-purchase benefits, though existing members retain defined benefits	6%
• Future service for all members will be offered solely on a money-purchase basis	4%
• Closing the scheme to new entrants (without an alternative offered)	0%

## Replacement of occupational pension scheme with contract-based arrangement

11.9 Similarly, defined-contribution schemes were asked about possible replacement of the scheme in question, which was, of course, a trust-based occupational pension scheme, with a contract-based defined-contribution arrangement such as a personal or stakeholder pension. Results for this question are given in table 11.6 below.

Table 11.6 Proportion of total active employee membership in defined-contribution schemes, by whether and when the sponsoring employer of the scheme has considered replacing the occupational pension scheme with a contract-based defined-contribution arrangement

• Never	14%
• Within last year	32%
• Within last 5 years	18%
• Longer ago	13%
• No response	23%

## Chapter 12 – Methodology

- 12.1 The aim of the survey was to produce results that would provide a picture of certain aspects of occupational pension provision in the private sector across the UK as a whole. To achieve this, the survey asked occupational pension schemes in the private sector for a very wide range of information, both quantitative and qualitative, which was then categorised and analysed. In particular, the quantitative data sought were generally those included in schemes' annual trustees' reports and accounts.
- 12.2 Since data were generally required for April 2005, fieldwork commenced in the autumn of 2005 when reports and accounts for scheme years ending at April 2005 had become available.
- 12.3 This survey is the thirteenth in a series which the Government Actuary has carried out since the 1950s. One of the features of the series has been a considerable degree of continuity in the questions, which allows time series analysis of key aspects of occupational pension schemes.
- 12.4 As in the previous survey as at 2004, this survey included schemes of all statuses, and so frozen and winding-up schemes were considered alongside those which were either open or closed. In this way, it was intended to capture data on the types of schemes which were being replaced, and perhaps identify any features of winding-up schemes which slowed the winding up process.

### Designing the questionnaires

- 12.5 Following the review of the surveys in 2003, it was decided that surveys should be conducted annually, but operating on a cycle, with different aspects of schemes explored in each year in the cycle. It was decided that the particular focus for the second survey in the new cycle would be the extent to which schemes contract out their administration to third-parties (such as specialist administrators and insurance companies), communications with scheme members, and the expenses of running schemes.

- 12.6 The starting point in specifying the questions in the current survey were the questionnaires used in the twelfth survey, which collected data as at 2004, and the eleventh survey, which collected data as at 2000. Although the main focus of the 2005 survey was different from that of the 2004 survey, many questions, such as those about scheme membership and contributions were common to both surveys, so the 2004 questions on such subjects could be used as a base. Questions from this previous survey which related to aspects not to be covered in the 2005 survey were removed, as were a few questions which were no longer appropriate because of other changes to pension schemes or pensions legislation. Questions on communication with scheme members were based on similar questions asked in the eleventh survey as at 2000, with the aim of ensuring the possibility of producing comparable results.
- 12.7 The subject matter of the survey was discussed with the GAD occupational pension schemes survey advisory group, which had been set up following another of the recommendations of the 2003 review. Through the advisory group, views of other public bodies, such as the Pensions Regulator (formerly the Occupational Pensions Regulatory Authority) and the Pensions Commission, and other government departments, such as the Department for Work and Pensions, HM Revenue & Customs, and the Office for National Statistics were received. The advisory group was able to suggest potential questions to be included, and also helped to finalise the drafting of the questions, assessing them for their readability and likely comprehensibility by respondents.
- 12.8 For the 2005 survey, four separate questionnaires were produced:
- one for defined-benefit schemes (14 pages);
  - one for defined-contribution schemes (16 pages);
  - one for very small schemes (those with fewer than 12 members) regardless of whether defined-benefit or defined-contribution (4 pages); and
  - one for schemes which were winding up, regardless of size or whether defined-benefit or defined-contribution (4 pages).
- 12.9 Where schemes had between 12 and 99 members, they were sent one copy of either the defined-benefit or the defined-contribution questionnaire, depending on the benefit structure of their scheme. This was determined by the sample cleaning exercise described in paragraph 12.24.

- 12.10 Where schemes had 100 or more members, they were asked in the sample cleaning exercise whether the scheme was sectionalised, that is, divided into sections. If the scheme was sectionalised, it received a copy of either the defined-benefit or defined-contribution questionnaire for each of its sections as appropriate, up to a maximum of four questionnaires for any one scheme. If the scheme was not divided into sections, it received either one copy of the defined-benefit questionnaire or one copy of the defined-contribution questionnaire, depending on the benefit structure of the scheme.
- 12.11 Public-sector schemes were not included in the 2005 survey. It was felt that the focus of this survey, on the administration, communication practices and expenses of schemes, was less relevant for public-sector schemes than for private-sector schemes. Because only private-sector schemes were surveyed, it was possible to use a larger sample of them for the survey. There is the intention that public-sector schemes will be included in future surveys, at least in some years in the cycle of focus areas.
- 12.12 A pilot study of the questionnaires, instructions and associated paperwork was conducted in September 2005. The pilot study used a small number of private-sector schemes drawn at random from the Pension Schemes Registry. Those responding to the pilot study reported no significant difficulties in completing the questionnaires; despatch of questionnaires to all schemes in the sample followed in November 2005. No data from schemes in the pilot study were used in any of the analyses presented in this document.

### **The electronic questionnaire**

- 12.13 As in the 2004 survey, an online questionnaire was used as a way of capturing responses electronically. There were two main reasons for this: to reduce the amount of data entry to be performed within GAD from responses received in paper form and to reduce the number of invalid answers or answers to some questions which were inconsistent with other answers given by the respondent.
- 12.14 An additional benefit of this approach was that the software could deduce to a certain extent which questions did not apply to the respondent based on their earlier answers, and skip over them. This should have reduced the time taken for electronic respondents to complete the questionnaire.

- 12.15 The content of the electronic questionnaire on the GAD website was as far as possible a replica of the paper questionnaire sent to each scheme in the sample. It also contained a help function, and contact details, as were despatched with the paper copies.
- 12.16 The online questionnaire went live at the time that paper questionnaires were despatched. The online questionnaire worked very well thereafter, with very little recognised downtime during the three month “live” period. Few respondents had to ask for help in using the online questionnaire.
- 12.17 In total, around 24 per cent of all responses were received via the online questionnaire, with electronic responses more common from larger schemes. This proportion is reportedly consistent with the experience of other surveys which have gathered information online.
- 12.18 The electronic questionnaire was also used for data entry of responses received in paper form, and proved very useful in highlighting invalid or inconsistent answers from these responses during the data entry process.

### **Selecting the sample**

- 12.19 The survey was conducted using a sample of occupational pension schemes. The schemes in this sample were selected at random from the Pension Schemes Registry, maintained in 2005 by the Pensions Regulator. At the time TPR formed a register of all occupational and personal pension schemes in the United Kingdom with two or more members.
- 12.20 To be eligible for selection, schemes needed to have “live” status at the registry. In this context, “live” status meant that a scheme was recorded as open, closed, frozen or winding up; that is, it had undischarged liabilities to pay pension benefits. Schemes might have ceased being “live” if they had completed the winding-up process, or they might have been removed from the registry database if they had ceased to have more than one member.

12.21 The schemes are classified on the registry according to their total number of members. It was therefore possible to stratify the sample according to the scheme size. Each of the six size bands into which the schemes on the registry are divided was treated as a stratum of the sample. In the private sector, the vast majority of schemes are very small with fewer than 12 members, and most of the remainder have fewer than 100 members. However, the bulk of scheme membership is concentrated in a very much smaller number of very large schemes. In creating the stratified sample, a higher sampling fraction was therefore used for the largest schemes; 100 per cent of schemes with 5,000 or more members were included, to ensure greater coverage of these schemes as they have the bulk of members.

12.22 Table 12.1, below, shows the total number of private-sector schemes in each size band, the sampling fraction used in each, and the resulting number of schemes sampled in that size band. The proportions sampled among schemes in all size bands (apart from very large schemes with more than 10,000 members) were higher than for the 2004 survey.

Table 12.1 The universe of private-sector schemes and the sample selected

	<u>Total on registry</u>	<u>Proportion to be sampled</u>	<u>2004 proportions</u>	<u>Total in sample</u>
<i>Open and closed schemes</i>				
10,000+	241	100.0%	100.0%	241
5,000 to 9,999	215	100.0%	33.3%	215
1,000 to 4,999	1,070	20.0%	10.0%	214
100 to 999	4,640	12.5%	4.0%	580
12 to 99	6,840	2.5%	1.0%	171
2 to 11	66,800	0.25%	0.2%	167
<b>Totals</b>	<b>79,806</b>			<b>1,588</b>
<i>Frozen and winding up schemes</i>				
10,000+	5	100.0%	100.0%	5
5,000 to 9,999	4	100.0%	33.3%	4
1,000 to 4,999	85	20.0%	10.0%	17
100 to 999	856	12.5%	4.0%	107
12 to 99	2,760	2.5%	1.0%	69
2 to 11	6,800	0.25%	0.2%	17
<b>Totals</b>	<b>10,510</b>			<b>219</b>
<i>All private sector schemes</i>				
10,000+	246	100.0%	100.0%	246
5,000 to 9,999	219	100.0%	33.3%	219
1,000 to 4,999	1,155	20.0%	10.0%	231
100 to 999	5,496	12.5%	4.0%	687
12 to 99	9,600	2.5%	1.0%	240
2 to 11	73,600	0.25%	0.2%	184
<b>Totals</b>	<b>90,316</b>			<b>1,807</b>

*In this table scheme status is as recorded on the Pension Schemes Registry*

- 12.23 Whilst the registry database includes information about a scheme's status (open, closed, frozen or winding up), it is possible that this information might not have reflected the situation as at April 2005. This is because schemes need only to report changes to their status within 12 months of the change being made (many schemes may report such changes when paying the levy every year).
- 12.24 For this reason, schemes in the sample were asked to confirm their status in a "cleaning" exercise before the main survey. The analysis presented in this document uses the status as reported in this exercise. As a secondary part of this exercise, schemes were also asked to confirm their benefit type (either defined-benefit or defined-contribution), the size band appropriate to their scheme, and their contact details.
- 12.25 During the course of this exercise, some of the 1,807 schemes in the sample reported that they had already wound up, some that they now had just one member, and some that they were a contract-based scheme (such as a group personal pension). A small number of schemes indicated that they had merged with other schemes. The number of ineligible schemes was 165 and all were removed from the survey. All subsequent calculations were adjusted to take account of these removals.

### **Quality of responses**

- 12.26 Responses received in paper form were checked for quality and content on arrival in the department. In addition, electronic responses were reviewed shortly after they were posted via the GAD website. Where the answers given were felt to be unclear, either on the initial scan at receipt or on subsequent data entry, the respondent was asked to clarify the information provided.
- 12.27 The quality of the responses was very good. In general, almost all respondents were able to complete the questionnaire fully; the most frequent exceptions were the questions on the number of active employee members split between men and women, the number of pension sharing cases on divorce and, for defined-contribution schemes, questions on expenses charged against members' accounts. A substantial number of respondents did not answer these three questions, as had been the case with the 2004 survey. Additionally, one of the new questions for 2005 concerning expenses of schemes was also poorly answered.

## Timing of responses

12.28 The deadline given for responses given was 12 December 2005. In the fortnight before this deadline an exercise to “chase” responses was started. For the 2005 survey, the focus was partly on defined-contribution schemes, and therefore smaller schemes were the first to be contacted (as these are mostly defined-contribution in nature). Two temporary members of staff continued to chase responses from the last week in November up to the end of the third week of December.

12.29 Responses continued to come in until late January 2006, when fieldwork was formally closed and the online database locked to prevent any further additions. Once this phase of the project was completed, the achieved response rate was assessed, and analysis of the data began.

## Response rates

12.30 The overall response rate for the survey was 39 per cent, with 641 responses from the total of 1,642 schemes remaining in the sample after the cleaning exercise. This was lower than the 2004 survey, where the equivalent figure was 45 per cent.

12.31 The overall response rate masks a significant variation between schemes of different sizes and between those of different types (in terms of the questionnaire they were sent). Table 12.2 summarises the final response rates by size band.

Table 12.2 Response rate from private-sector schemes

<u>Scheme size</u> <u>(total membership)</u>	<u>Responses, after removal</u> <u>of ineligible schemes</u>	<u>Total sent, after removal</u> <u>of ineligible schemes</u>	<u>Response rates</u>	<u>2004 response</u> <u>rates</u>
10,000+	155	243	64%	67%
5,000 to 9,999	95	215	44%	59%
1,000 to 4,999	75	223	34%	38%
100 to 999	213	632	34%	37%
12 to 99	59	189	31%	35%
2 to 11	44	140	31%	25%
<b>Total</b>	<b>641</b>	<b>1,642</b>	<b>39%</b>	<b>45%</b>

- 12.32 As table 12.2 shows, response rates were highest from the largest schemes. The overall drop in the response rate from 2004 is reflected across all of the size bands except for schemes with 2 to 11 members. However the drop in the overall response rate should be seen in the context of the decision to increase the number of medium-sized schemes in the sample – since such schemes are less likely to respond than large and very large schemes, a greater weighting of them in the sample could have been expected to lower the overall response rate.
- 12.33 In terms of their membership, responding schemes cover around 69 per cent of the total membership of all private-sector schemes in the original sample.
- 12.34 The lowest rate of response was for all schemes with fewer than 100 members; both the smallest bands showed a response rate of 31 per cent. A contributory factor to this low response rate was the difficulty of tracing such small schemes. Because the membership of very small schemes was a small proportion of the total, high degrees of variation in results for these schemes (for example, estimates such as active employee membership) should not have a significant effect on the overall estimate for all schemes. However, results for small schemes are subject to a greater margin of error and uncertainty.
- 12.35 There was also a low rate of response from schemes which were winding up. This can be attributed partly to their size (they are smaller, on average), and partly to the pressures that these schemes generally face in the course of winding up. In addition, contacts for many of these schemes were difficult to trace, mainly because the sponsoring employer had become insolvent.
- 12.36 Where schemes were sent the full questionnaires for defined-benefit and defined-contribution schemes, they were asked how long it took them to complete the questionnaire. The average time quoted for completion of these questionnaires was 97 minutes, though times given varied greatly between under 10 minutes to over 900 minutes.

## Rating up the results

- 12.37 The results of the survey have been produced by a rating-up process, whereby data from individual responses are scaled up. Rating up is necessary to produce estimates of values for the whole population of occupational pension schemes, since the survey is based on a sample, and to account for those schemes in the sample which did not respond.
- 12.38 The general approach to rating up taken in this survey was almost identical to that of the 2004 survey. Data from responses were rated up by reference to the sampling fraction and response rate, with different size bands rated up individually.
- 12.39 In the 2000 survey, a potential source of bias in the results was identified, relating to non-respondents having particular characteristics not shared by respondents. It was then considered that, based on the reported response rates, larger schemes would be more likely to respond than smaller schemes, and therefore that responses received would be biased towards larger schemes. While the stratified sampling approach (and its implications for rating up) would reduce such a bias to a degree, it may be that this bias exists even within each of the six size strata.
- 12.40 In order to compensate for this effect, the rating-up factor for each stratum was based not on the number of schemes responding, but on the combined number of members (as recorded by the Pension Schemes Registry) of the responding schemes and that of all schemes in the sample. Although the Pension Schemes Registry membership figure might not be completely accurate (because, for instance, of delays in reporting changes in membership) it serves as a useful proxy for scheme size.
- 12.41 Based on the information about the sampling proportions in table 12.1 above, and on the proportion of schemes responding, as weighted by number of members recorded in the registry database, rating-up factors for each of the six strata were calculated. These are shown in table 12.3.

Table 12.3 Rating-up factors for aggregate total variables for schemes

<u>Scheme size (total membership)</u>	<u>Registry membership of schemes responding</u>	<u>Registry membership of schemes in levy band</u>	<u>Response Rate</u>	<u>Sampling Fraction</u>	<u>Rating up factor</u>
10,000+	7,104,456	9,477,041	75%	1	1.33
5,000 to 9,999	680,157	1,510,768	45%	1	2.22
1,000 to 4,999	163,465	486,854	34%	5	14.89
100 to 999	70,114	207,662	34%	8	23.69
12 to 99	2,523	7,226	35%	40	114.56
2 to 11	125	395	32%	400	1,264.00
<b>Overall</b>	<b>8,020,840</b>	<b>11,689,946</b>	<b>69%</b>		

12.42 Comparison of the response rate shown above with that in table 12.2 gives a feel for the extent to which responding schemes are atypical in terms of size.

12.43 These rating-up factors could, in theory, be applied to all the responses received from a given scheme in order to derive that scheme's contribution to the population estimate of that variable. However, a further adjustment to numerical variables was needed, as some schemes had returned a questionnaire, but had not completed all of the numerical data. Therefore an additional question-specific multiplier was used in the rating-up process.

12.44 One final complication arises when a scheme is recorded as being in one size band on the registry database, but reports itself as being of a different size in its response to the survey. The appropriate rating up factor for such a scheme is that applicable to schemes of the size that it was recorded as being on the registry database. Where a scheme was thought to be in the very small scheme size band by the registry, the appropriate rating up factor can be large, and, if the scheme itself is actually quite large according to its response to the survey, the rated up effect on the overall results can be significant. The effect is compounded as such a scheme would not have been asked all the questions normally asked of a scheme of its true size, as it would have been sent only the very small scheme questionnaire. The results of the 2005 survey have been affected by such schemes, but not unduly.

## Calculation of standard errors

12.45 In addition to the population estimates based on numerical variables (such as the number of active employee members) it was possible to estimate their standard errors and confidence intervals. Table 12.4 shows the estimates of standard errors for the three key numerical variables which occur in the survey - the total number of active employee members, the number of pensions in payment and the number of preserved pension entitlements - as reported by each respondent. Estimates are shown for each of the six size bands and also the overall standard error for all six size bands combined.

Table 12.4 Standard errors of key numerical variables by size band

<u>Scheme size</u> <u>(total membership)</u>	<u>Standard error (to nearest thousand members)</u>		
	<u>Active members</u>	<u>Pensions in payment</u>	<u>Preserved entitlements</u>
10,000+	211,000	180,000	145,000
5,000 to 9,999	39,000	40,000	46,000
1,000 to 4,999	94,000	79,000	104,000
100 to 999	72,000	31,000	74,000
12 to 99	22,000	13,000	27,000
2 to 11	78,000	14,000	12,000
Overall	259,000	204,000	201,000

12.46 The methodology used in rating up responses is sometimes referred to as “double sampling”, where historical values are incorporated to form an estimate of the population total. Because this approach is used, a variation on the usual procedure for calculating the standard errors of estimates from a stratified random sample is employed. This procedure is outlined below.

12.47 The variance  $\hat{V}$  of the estimated population total can be estimated by:

$$\hat{V} = \sum_{h=1}^6 \left\{ N_h^2 \left( 1 - \frac{n_h}{N_h} \right) \frac{s_{yrh}^2}{n_h} + N_h^2 \left( 1 - \frac{m_h}{n_h} \right) \frac{s_{erh}^2}{m_h} \right\} \quad \dots(1)$$

where

- $h$  is the size band ( $h = 1, \dots, 6$ )
- $N_h$  is the number of schemes in the population in size band  $h$
- $n_h$  is the number of schemes sampled in size band  $h$
- $m_h$  is the number of responses in size band  $h$

$s_{yrh}^2 = \frac{1}{m_h - 1} \sum_{i \in s_{hr}} (Y_i - \bar{y}_{hr})^2$  is the sample variance of  $Y$  over the respondents in size band  $h$ .

$s_{erh}^2 = \frac{1}{m_h - 1} \sum_{i \in s_{hr}} (E_i - \bar{e}_{hr})^2$  is the sample variance of the "residual"  $E$  over the respondents in size band  $h$ .

This residual  $E$  is defined as:  $E_i = Y_i - \left( \frac{\bar{y}_{hr}}{\bar{x}_{hr}} \right) X_i$  ... (2)

where

- $Y_i$  is the quantity of interest for scheme  $i$
- $X_i$  is the historical value

The standard error  $SE$  of the estimated population total is the square root of the variance  $\hat{V}$  in (1):

$$SE = \sqrt{\sum_{h=1}^6 \left\{ N_h^2 \left( 1 - \frac{n_h}{N_h} \right) \frac{s_{yhr}^2}{n_h} + N_h^2 \left( 1 - \frac{m_h}{n_h} \right) \frac{s_{ehr}^2}{m_h} \right\}} \quad \dots(3)$$

Confidence intervals can then be calculated in the usual manner.

## **Glossary**

<b>A-DAY</b>	colloquial name for 6 April 2006 when simplification of pensions tax legislation came into force
<b>ACCRUAL RATE</b>	the rate at which rights build up for each year of pensionable service in a defined-benefit scheme
<b>ACTIVE EMPLOYEE MEMBER</b>	a member of an occupational pension scheme who is at present accruing benefits under that scheme in respect of current employment
<b>ACTIVE SCHEME</b>	term used by TPR for an open scheme
<b>ACTUARY</b>	a professional adviser on financial questions involving probabilities relating to mortality and other contingencies, who advises on the management of assets and liabilities by analysing past events, assessing the present risks involved and modelling what could happen in the future
<b>ADDED YEARS</b>	the provision of extra benefits by reference to an additional period of pensionable service in a defined-benefit scheme
<b>ADDITIONAL VOLUNTARY CONTRIBUTIONS</b>	contributions over and above an active member's normal contributions if any, which the active member elects to pay to the scheme in order to secure additional benefits
<b>ADMINISTRATOR</b>	for the purposes of this document, the person who is responsible for the day to day administration of the pension scheme – this is not necessarily the person or persons notified to the Inland Revenue as being responsible for the management of a pension scheme
<b>ANNUAL REPORT</b>	the means by which the trustee of an occupational pension scheme communicate financial and other information about the scheme to members, employers and other interested parties – generally includes a report by the trustees of the scheme as well as the annual accounts
<b>ANNUITY</b>	a series of payments, which may be subject to increases, made at stated intervals until a particular event occurs – this event most commonly being the death of the person receiving the annuity
<b>ASSETS</b>	items such as investments, cash and debtors to which the trustees of a pension scheme have title
<b>BENEFIT STATEMENT</b>	a statement or estimate of benefits payable in respect of an individual's membership of a pension scheme on the occurrence of specific events (for instance the – different – benefits that may be payable on eventual retirement on age grounds and if death occurred on the date of the statement)

<b>BUYING OUT</b>	the purchase by pension scheme trustees of an insurance policy in the name of a member, in place of entitlement to benefit from the scheme, following termination of the member's pensionable service
<b>CAREER-AVERAGE (basis for benefits)</b>	calculation of benefit for each year of membership related to the pensionable earnings for that year, that is, with the overall benefit based on the average earnings over a member's whole career
<b>CLOSED SCHEME</b>	a pension scheme which does not admit new members. Contributions may or may not continue and benefits may or may not be provided for future service
<b>COMBS</b>	please see contracted-out mixed-benefit scheme
<b>COMPS</b>	please see contracted-out money-purchase scheme
<b>CONTRACTED-OUT MIXED BENEFIT SCHEME (COMBS)</b>	an occupational pension scheme which has separate defined-benefit and money-purchase sections and which contracts out on both bases (permitted by section 149 of the Pensions Act 1995)
<b>CONTRACTED-OUT MONEY PURCHASE SCHEME (COMPS)</b>	an occupational pension scheme, possibly a defined-benefit scheme, although more usually a money-purchase scheme, which is contracted-out on a money-purchase basis, that is where the minimum payments are made towards protected rights
<b>CONTRACTED-OUT SALARY RELATED SCHEME (COSRS)</b>	an occupational pension scheme which is contracted-out on a salary-related basis, that is by providing benefits (section 9(2B) rights - a reference to section 9(2B) of the Pension Schemes Act 1993) which are broadly equivalent to or better than those specified under the reference scheme test. Prior to 6 <sup>th</sup> April 1997, a COSRS was contracted-out by reference to the provision of a benefit at least as big as a statutorily defined amount called a guaranteed minimum pension (GMP)
<b>CONTRACTING OUT</b>	using a pension scheme, which meets certain conditions, to provide benefits in place of the state earnings-related pension scheme (SERPS)
<b>CONTRACTING-OUT REBATES</b>	the amount by which the employer's and the employee's National Insurance contributions are reduced or rebated in respect of membership of a contracted-out pension scheme
<b>CONTRIBUTION HOLIDAY</b>	a period during which contributions are temporarily suspended, normally when a defined-benefit pension scheme is in surplus
<b>COSRS</b>	please see contracted-out salary-related scheme
<b>DEFERRED MEMBER</b>	please see deferred pensioner
<b>DEFERRED PENSIONER</b>	a member with a preserved pension

<b>DEFINED-BENEFIT BENEFITS</b>	benefits defined in scheme rules as being independent of the contributions payable, and not directly related to the investments of the scheme. Such benefits are most commonly based on both earnings and length of service, or they may be based on one of these factors, or be a flat-rate benefit
<b>DEFINED-BENEFIT (of a PENSION SCHEME)</b>	a scheme where all the benefits (other than benefits secured by additional voluntary contributions) are on a defined-benefit basis
<b>DEFINED-CONTRIBUTION BENEFITS</b>	benefits for an individual member calculated by reference to contributions paid into the scheme in respect of that member, usually increased by an amount based on the investment return on those contributions
<b>DEFINED-CONTRIBUTION (of a PENSION SCHEME)</b>	a scheme where all the benefits are on a defined-contribution basis
<b>DWP</b>	Department for Work and Pensions
<b>FINAL PENSIONABLE EARNINGS</b>	the pensionable earnings on which the benefits are calculated in a defined-benefit scheme
<b>FINAL SALARY SCHEME</b>	a defined-benefit schemes where the benefit is calculated by reference to the earnings of the member close to the time of leaving service
<b>FROZEN SCHEME</b>	a closed scheme where no further benefits accrue, and members below pension age are entitled to preserved pension benefits
<b>GAD</b>	please see Government Actuary's Department
<b>GMP</b>	please see guaranteed minimum pension
<b>GOVERNANCE</b>	the act, manner or function of, or structures for, overseeing how a scheme or other organisation is run
<b>GOVERNMENT ACTUARY'S DEPARTMENT (GAD)</b>	a UK government department providing actuarial advice to mainly public-sector clients in the UK and abroad. The Government Actuary is the head of the department, and has certain statutory roles in pensions and social security
<b>GROUP PERSONAL PENSION</b>	an arrangement made for employees of a particular employer, or for some other group, for instance of self-employed individuals, to participate in a personal pension scheme on a group basis (not a single scheme, merely a collecting arrangement)
<b>GUARANTEED MINIMUM PENSION</b>	the minimum pension which a contracted-out occupational scheme (other than one contracted-out on a protected rights basis) must provide as one of the conditions for contracting out for service before 6 April 1997
<b>HER MAJESTY'S REVENUE AND CUSTOMS (HMRC)</b>	the new department responsible for the business of the former Inland Revenue and HM Customs and Excise
<b>HMRC</b>	please see Her Majesty's Revenue and Customs

<b>HYBRID BENEFITS</b>	a benefit is calculated as the better of two alternatives, for example as the better of a defined-benefit and a defined-contribution basis
<b>HYBRID SCHEME</b>	an occupational pension scheme offering both defined-benefit and defined-contribution benefits (generally offering different benefits to different groups of workers), or a scheme offering hybrid benefits
<b>INSURED SCHEME</b>	a pension scheme where the sole long-term investment medium is an insurance policy (other than a managed fund policy, that is a pooled investment fund akin to a unit trust)
<b>INTEGRATION</b>	the design of pension scheme benefits to take into account all or part of the state scheme benefits which the member is deemed to receive
<b>LIFESTYLING (of investments)</b>	an asset allocation strategy used mainly by defined-contribution schemes, whereby a member's investments are adjusted depending on age and term to retirement (typically, as retirement approaches the assets are switched from equities to bonds and cash)
<b>MAA</b>	please see model administration agreement
<b>MANAGED FUND</b>	an arrangement where the assets are invested on similar lines to unit trusts by an external investment manager
<b>MEMBER</b>	a person who has been admitted to membership of a pension scheme and is entitled to benefit under the scheme (whether now or in the future) – this term includes former spouses of members who have gained their rights as a result of a pension credit following pension sharing on divorce
<b>MFR</b>	please see minimum funding requirement
<b>MINIMUM FUNDING REQUIREMENT (MFR)</b>	a requirement under section 56 of the Pensions Act 1995 that, under a prescribed set of actuarial assumptions, the value of the assets of a defined-benefit scheme should not be less than its liabilities
<b>MODEL ADMINISTRATION AGREEMENT</b>	a document drafted and published by the Pensions Management Institute (PMI) for schemes to use as (or as the basis for) their agreement with third party administrators
<b>MONEY-PURCHASE BENEFITS</b>	please see defined-contribution benefits
<b>MONEY-PURCHASE SCHEME</b>	please see defined-contribution scheme
<b>NORMAL PENSION AGE (NPA)</b>	the earliest age at which a member is entitled to receive benefits on his/her retirement from employment to which the scheme relates, ignoring any special provisions as to early retirement on grounds of ill-health or otherwise (section 180 of the Pension Schemes Act 1993)

<b>OCCUPATIONAL PENSION SCHEME</b>	a scheme organised by an employer or on behalf of a group of employers to provide pensions and/or other benefits for or in respect of one or more employees on leaving service or on death or retirement
<b>OCCUPATIONAL PENSIONS REGULATORY AUTHORITY (OPRA)</b>	please see the Pensions Regulator, which in April 2005 replaced Opra (an independent body set up under the Pensions Act 1995 that regulated occupational pension schemes)
<b>OPEN SCHEME</b>	a pension scheme which admits new active employee members: TPR refers to such schemes as “active” schemes
<b>OPRA</b>	please see occupational pensions regulatory authority
<b>PAYMENT SCHEDULE</b>	a schedule specifying contribution rates to be paid and the due dates for such payments. Required for money purchase schemes under section 87 of the Pensions Act 1995
<b>PENSION CREDIT MEMBER</b>	a former spouse of a member who has an entitlement to benefits following a pension sharing order (see pension sharing on divorce)
<b>PENSION SCHEMES REGISTRY</b>	the register of occupational pension schemes and personal pension schemes maintained by TPR
<b>PENSION SHARING ON DIVORCE</b>	the division, according to a court order, of an individual’s pension rights on divorce in order to create separate rights for that individual and the ex-spouse – this option was created for divorcing couples by the Welfare Reform and Pensions Act 1999
<b>PENSIONABLE EARNINGS</b>	the earnings on which benefits and/or contributions are calculated under scheme rules
<b>PENSIONABLE SERVICE</b>	the period of service taken into account in calculating benefits
<b>PENSIONS REGULATOR</b>	please see “the Pensions Regulator” (TPR)
<b>PENSIONS MANAGEMENT INSTITUTE</b>	a non-political body established to promote professionalism amongst those involved in pensions
<b>PRESERVED PENSION</b>	sometimes called a deferred pension, a pension arising on an individual ceasing to be an active member of an occupational pension scheme, payable at a later date
<b>PRIVATE-SECTOR SCHEMES</b>	all schemes which are not public-sector schemes (public-service schemes for these purposes)
<b>PROTECTED RIGHTS</b>	the benefits from a scheme contracted-out on a money purchase basis deriving from at least the minimum contributions or minimum payments (amounts equivalent to the reduction in National Insurance contributions available for contracted-out employees), which are provided in a specified form as a necessary condition of contracting out
<b>PUBLIC-SECTOR SCHEMES</b>	in this survey, identical to public-service schemes

<b>PUBLIC-SERVICE SCHEMES</b>	schemes the particulars of which are defined by statute, Royal Prerogative or Royal Charter; for example the schemes for the Civil Service, the Armed Forces, teachers, workers in the National Health Service and local authorities, the police and fire services. This survey follows the classification used by the TPR Pension Schemes Registry
<b>REFERENCE SCHEME TEST</b>	comparison of benefits provided by a COSRS with those under the standard scheme specified in the Pension Schemes Act 1993 to ensure that they are at least equal, in order to permit contracting out
<b>REGISTRY</b>	please see Pension Schemes Registry
<b>S2P</b>	please see State second pension
<b>SCHEDULE OF PAYMENTS</b>	a schedule specifying contribution rates and payment dates, normally agreed between the employer and the trustees and certified by the scheme actuary as being adequate to satisfy the minimum funding requirement (MFR). Such a schedule is required for defined-benefit schemes subject to the MFR under section 58 of the Pensions Act 1995
<b>SCHEDULE OF CONTRIBUTIONS</b>	a schedule, required under section 87 of the Pensions Act 1995 for tax approved money-purchase occupational pension schemes, specifying contribution rates to be paid and the due dates for such payments
<b>SCHEME RETURN</b>	a return required by the Pensions Regulator from every scheme, outlining certain details of the scheme
<b>SCHEME YEAR</b>	the financial year of an occupational pension scheme for which the audited accounts and the annual report are prepared
<b>SECTION</b>	a separate part of a scheme designed either to allow different benefits to be offered to different classes of members, or to allow for the rights of different classes of members to be accounted for separately
<b>SECTIONALISED SCHEME</b>	a scheme with more than one section
<b>SERPS</b>	please see state earnings-related pension scheme
<b>SMALL SELF-ADMINISTERED SCHEME (SSAS)</b>	a self-administered occupational pension scheme, approved under Chapter 1 of the Income and Corporation Taxes Act 1988, which generally has fewer than 12 members, and where at least one of those members is connected with another member, trustee or employer in relation to the scheme
<b>SMPI</b>	please see statutory money purchase illustration
<b>SPONSORING EMPLOYER</b>	an employer some or all of whose employees have or had the right to become members of the occupational pension scheme in question

<b>STAKEHOLDER PENSION</b>	a defined-contribution scheme able to accept contributions after April 2001 meeting certain standards set by the Inland Revenue and TPR – employers with five or more employees are generally required to give employees access to a stakeholder pension in a specified manner (unless an alternative pension scheme or a suitable standard is offered). Such a scheme may either be established as an occupational pension scheme or as a contract-based arrangement where each member has a contractual agreement with the scheme provider
<b>STATE EARNINGS-RELATED PENSION SCHEME</b>	state earnings-related pension scheme (SERPS) – see also state second pension
<b>STATE SECOND PENSION (S2P)</b>	the additional pension element of the state pension scheme, being a pension based on employees’ average earnings throughout their working lives. S2P was introduced with effect from 6 April 2002 as a reform of SERPS
<b>STATUTORY MONEY PURCHASE ILLUSTRATION</b>	an illustration of potential benefits from a money purchase pension arrangement (whether a trust-based occupational pension scheme or a contract-based personal or stakeholder scheme), required by legislation to be made at regular intervals and according to a standard methodology prescribed by the actuarial profession and approved for the purpose by the government
<b>STATUS (of a SCHEME)</b>	information about whether a scheme admits new members or continues to have any active employee members, that is, whether a scheme is open, closed, frozen or winding up
<b>SURPLUS</b>	The excess of the value of assets over the value of the liabilities (as calculated by an actuary) in a defined-benefit pension scheme
<b>THIRD PARTY ADMINISTRATOR</b>	a company (not being the sponsoring employers’ organisation) which provides administration services to pension schemes
<b>TPA</b>	please see third party administrator
<b>TPR</b>	the Pensions Regulator
<b>THE PENSIONS REGULATOR (TPR)</b>	an independent body set up under the Pensions Act 2004 that regulates occupational pension schemes, replacing Opra from April 2005
<b>TRANSFER PAYMENT</b>	a payment made from a pension scheme to another pension scheme, or to purchase a buy-out policy, in lieu of benefits which have accrued to the member concerned, to enable the receiving arrangement to provide alternative benefits. The transfer payment may be made in accordance with the scheme rules or in exercise of a member's statutory rights under the Pension Schemes Act 1993

<b>TRANSFER VALUE QUOTATION</b>	a quotation by the scheme trustees or administrations of the amount of a transfer payment that would be payable if the member decided to take a transfer payment
<b>TRUST</b>	a legal concept whereby property is held by one or more persons (the trustees) for the benefit of others for the purposes specified by the trust deed or other trust instrument
<b>TRUST DEED</b>	a legal document which establishes, regulates or amends a trust
<b>TRUSTEE</b>	an individual or company appointed to carry out the purposes of a trust in accordance with the provisions of the trust instrument and general principles of trust law
<b>TRUSTEE REPORT</b>	a report by the trustees describing various aspects of an occupational pension scheme. It may form part of the annual report
<b>VERY SMALL SCHEME</b>	in this survey, very small schemes are those with a total membership of between 2 and 11 members
<b>WINDING UP</b>	the process of terminating an occupational pension scheme, usually by applying the assets to the purchase of immediate annuities and deferred annuities for the beneficiaries, or by transferring the assets and liabilities to another pension scheme, in accordance with the scheme documentation or statute (section 74 of the Pensions Act 1995)

Many definitions are taken from the Pensions Management Institute (PMI)/Pensions Research Accountants Group publication "Pension Fund Terminology", with the kind permission of the PMI.

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