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The 2004 GAD survey of occupational pension schemes

Today sees the publication of results from the Government Actuary's twelfth survey of occupational pension schemes, giving details for schemes in 2004.

Some key results are given on pages 3 to 5 of this news release.

Fuller details of these results can be found in the document "Occupational pension schemes 2004 – twelfth survey by the Government Actuary" published today on GAD's website:

http://www.gad.gov.uk/Pensions/2004_OPSS/results.htm

The published results include comparisons with results in earlier surveys by the Government Actuary and other data sources, details of how the survey was carried out, and a glossary of terms.

Chris Daykin, Government Actuary, welcomed the publication: "Since the publication of our previous survey in 2003, the debate about pensions has, if anything, intensified. We have seen the Pensions Act 2004 pass through Parliament. The Pensions Commission plans to issue its second report later this year. Major decisions about the future shape of pension provision in the UK are likely to follow. These decisions can only sensibly be taken on the basis of sound information about the current situation. I sincerely hope that this survey will help to increase our knowledge of the current pensions situation in the United Kingdom."

About the survey

Questionnaires were sent to a random sample of nearly 900 private-sector schemes drawn from the Pension Schemes Registry database. Schemes covering around 72% of all members responded. The schemes in the survey were of a wide range of sizes, and included "frozen" schemes where benefits no longer accrued and also schemes that were in the process of winding up, as well as those that were open to new members.

The questions asked were chosen following consultation with other government departments and public bodies, and representatives of the pensions industry. Schemes were asked to provide data as at April 2004.



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Shortly it is planned to have a facility on the GAD website allowing researchers with specific queries to get tailored information from the database of survey responses (with protection of the confidentiality of data on individual schemes).

This survey of occupational pension schemes is the twelfth in a series conducted by the Government Actuary since the mid-1950s. The previous survey was as at 2000. Results from that survey and some summary results from earlier surveys are available on the GAD website.

Future work

Work has already started on a 2005 survey, to be published in the first half of 2006. This will focus on defined-contribution schemes, and on the expenses of running all types of occupational pension scheme. It will be undertaken in close co-operation with the Pensions Regulator, as well as the Department for Work and Pensions, the Office for National Statistics and other government departments with pension statistics interests.

More details

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Key results from the 2004 GAD survey

Number of schemes (chapter 2 of full results document)

- There were around 16,600 private-sector occupational schemes with 12 or more members, and approximately 80,000 very small schemes with fewer than 12 members
- The majority of schemes with large memberships (10,000 or more members) offer benefits on a defined-benefit basis
- Taken as a whole, a significant proportion of private-sector defined-benefit schemes were either closed or frozen
- There are a significant number of private-sector schemes consisting of one or more closed defined-benefit sections and an open defined-contribution section

Members of schemes (chapter 3 of full results document)

- The overall number of active employee members of schemes was 9.8 million, with 4.8 million in private-sector schemes and 5.0 million in public-sector schemes. The total represents a fall of 0.3 million since 2000, a decline in private-sector scheme membership being partially offset by an increase in public-sector scheme membership
- There were 9.0 million pensions in payment in 2004 and 9.3 million preserved pension entitlements (private sector and public sector combined); both represent an increase on 2000
- Around three-quarters of the active employee members in private-sector schemes were in defined-benefit schemes or sections of schemes, and just under two-thirds of these were in schemes with 10,000 or more members
- Most members of defined-contribution schemes or sections of schemes were in medium-sized schemes
- Automatic enrolment of eligible members with the option for them to opt out tends to increase significantly the proportion of eligible employees who are members
- The most common pension age for members of private-sector defined-benefit schemes was 65, as it had been in 2000
- Nearly all active members of private-sector defined-benefit schemes and sections of schemes were contracted-out of the State Second Pension, compared to only around 30 per cent of members of defined-contribution schemes



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Benefits in defined-benefit schemes (chapter 4 of full results document)

- The majority of active employee members in private-sector defined-benefit schemes – both open and closed – had an accrual rate of 60ths
- Most members currently accruing pensions in private-sector defined-benefit schemes will see those pensions, once in payment, increased annually in line with increases in the retail price index (but with increases capped at 5 per cent each year) – the legal minimum
- For most pensioners of private-sector defined-benefit schemes, their schemes increased pensions based on all service which had accrued, both before a statutory requirement for indexation was introduced, and afterwards
- Most members in private-sector schemes were in schemes which would pay dependants' benefits on their death to unmarried partners (of either the same or opposite sex of the member) as well as to spouses of members who have them

Benefits in defined-contribution schemes (chapter 5 of full results document)

- Most active members of defined-contribution schemes would have had the choice of whether the pension secured for them at retirement had increases or benefits for surviving dependants in excess of any statutory minimum
- The dependants of active members of defined-contribution schemes were less likely than those of private-sector defined-benefit schemes to be provided with benefits if the member were to die in service
- Almost all members of defined-contribution schemes could retire with an immediate pension from age 50, though the pension would almost always only be that based on their own accounts

Contributions to schemes, benefit projections and investment choice (chapter 6 of full results document)

- In private-sector defined-benefit schemes, both employee and employer contributions tend to have risen since 2000; the major cause of this effect may well be additional contributions to correct deficits



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- Contributions to private-sector defined-benefit schemes by both employees and employers tend to be higher than contributions to defined-contribution schemes
- In those sectionalised schemes with both defined-benefit and defined-contribution sections, aggregate contributions to the defined-benefit section were higher in six out of seven cases, generally by at least 6 per cent of pensionable earnings
- A higher proportion of active members of defined-contribution schemes than of private-sector defined-benefit schemes were paying additional voluntary contributions
- a little over four out of five active members in private-sector defined-contribution schemes were given benefit projections each year, with the remainder being in schemes where projections were available on request
- around nine out of ten active members of defined-contribution schemes were offered a choice of investments, with some kind of “lifestyle” investment being the most common default option

Very small schemes, winding up schemes, and changes to schemes (chapters 7, 8 and 9 of full results document)

- Most members of very small schemes were accruing benefits on a defined-contribution basis, with contributions generally at a rate fixed under scheme rules
- Few very small schemes revealed that they had any investment in the sponsoring employer’s business
- There are around 470,000 members of winding up schemes, around 120,000 pensioners and around 350,000 with preserved pension entitlements; about seven out of ten of the total members in winding-up schemes were entitled to defined benefits
- About seven out of ten members of winding up schemes were in schemes where the sponsoring employer was insolvent.
- The most common single change made to defined-benefit schemes was to close the scheme and to offer new entrants alternative pension arrangements
- The most common single change made to defined-contribution schemes was to increase the range of investment choices offered



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Notes:

1. The Government Actuary's Department (GAD) was created in 1919. It offers an actuarial consultancy service to clients throughout the UK public sector and to certain private sector and overseas clients.

As well as performing its statutory duties, GAD provides actuarial advice to ministers and government departments, to many public sector bodies and to some overseas governments, covering financial and statistical matters, including pensions, insurance, social security and demography. We offer our clients the benefits of:

- objective and comprehensive advice, free of conflicting commercial interests;
- confidentiality on sensitive political and commercial issues; and
- wide experience in handling political and policy issues.

GAD is staffed by 115 civil servants, of whom 40 are qualified actuaries.

2. GAD consists of two directorates. One advises public sector clients on occupational pension arrangements. This includes carrying out periodic valuations of assets and liabilities, funding rate advice, general pensions consultancy, bulk transfers, asset/liability studies and privatisation terms. The second directorate provides advice on social security arrangements in the United Kingdom and certain overseas countries, as well as advising on pensions policy and regulation, carrying out pension scheme surveys, and producing the official population projections for the United Kingdom and its constituent countries.

3. The Morris Review of the actuarial profession, which included a review of GAD, recommended in March 2005 that the demographic work and the occupational pension schemes survey should be transferred to other departments. No decision has yet been taken on the future ownership of the survey.

4. Although constituted as a government department, GAD operates as a consultancy firm within the public sector, offering independent actuarial advice to clients and charging fees for its services. GAD is required to charge to recover its costs but does not seek to make a profit.

5. The Government Actuary is Chris Daykin. He joined GAD in 1970 and qualified as a Fellow of the Institute of Actuaries in 1973. He worked in all major areas of GAD before being appointed Government Actuary in 1989.

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