Securing the future of pensions

Finance Directors and Pensions

A View from the Boardroom

July 2008

NAPF Research Report

Contents

Introduction

In recent years, pensions issues have weighed heavily in the in-trays of Finance Directors (FDs) who must manage the balance sheet risk associated with their companies' defined benefit plans.

In light of the rising costs of providing workplace pensions and the pension reforms scheduled for 2012, FDs will have to focus more intently on their firms' pension arrangements and their future costs and risks.

While FDs need to understand the pension schemes which are offered to employees, it is important to understand their attitudes and level of understanding when it comes to pensions. For this reason, the NAPF and ICAEW have undertaken this survey.

For the survey, the NAPF and ICAEW commissioned interviews with 200 FDs and people in similar roles. The aim was to gauge their attitudes on pension issues, both now and what they expect to happen in the future.

The NAPF is the leading voice of workplace pensions in the UK. With over 1300 members, between them providing pensions to over 10 million working people with combined assets in excess of £800 billion, NAPF represent members' interests to government, regulators, and the media.

The Institute of Chartered Accountants in England and Wales (ICAEW) provides leadership and practical support to over 130,000 members in more than 160 countries, working with government, regulators and industry in order to maintain the highest standards.

Key findings

- When asked why they provided pensions, 65% of employers answered recruitment and retention, with 47% saying that this was the only reason. 43% said that offering a pension demonstrated that they are a responsible employer as well as helping with recruitment and retention.
- Three quarters said they would spend more than £5 on pensions for every £100 spent on salaries if they could start from scratch. One in five would spend more than £10 on pensions for every £100 spent on salaries.
- Amongst issues of concern to all respondents, the biggest worry was that pensions might prove inadequate when employees retire. Employers with DB schemes were most concerned about deficits. Almost one quarter rated their level of concern about deficits as "10 out of 10".
- Pensions are discussed far more frequently at board meetings of organisations which operate a DB scheme. 75% of DB scheme respondents said that pensions are on the agenda in more than one in ten board meetings, compared to just 38% of DC scheme respondents.
- Asked how they expected UK companies to change their pension arrangements over the next 10 years, 40% said they expected a further move away from defined benefit provision. However, 13% said that they thought the contributions paid to money purchase schemes would get bigger.
- 53% believed that, in principle, the Finance Director should be a member of the trustee board where the company offers a defined benefit scheme. However, over one third (37%) felt that the FD should not be a trustee.
- 68% of FDs with DB schemes said they would consider encouraging a more cautious investment strategy if funding levels improved. 75% would consider changing benefit structures for existing members if funding levels deteriorated.
- 45% said the costs associated with the 2012 reforms would be met by the employer in full. Just 7% said they would be passed on to employees in full.
- 72% expected to continue operating their own scheme for new employees rather than paying contributions to Personal Accounts. However, 21% said they did not know or would have to look at the details. 7% said that they would abandon their existing scheme in favour of Personal Accounts.
- 62% of FDs said they expected to maintain current contribution rates for new employees when auto-enrolment is introduced. However, 18% said that they would change the pension to limit costs and a further 20% did not know.

1. Pension costs

The cost to companies of providing a pension is rising. In its First Report, the Pensions Commission analysed how economic, regulatory and demographic changes had roughly doubled the cost of providing a typical final salary scheme with what might have been expected when many of these schemes were first established in the 1950s[1].

It is clear that these rising costs are a crucially important consideration for companies. Six FTSE 100 companies reported in their 2006 accounts that their defined benefit pension liabilities exceeded the market capitalisation of the company[2].

The rising costs of pensions are due to several factors, including:

- **Increased life expectancy**: In 1950, a man aged 65 could expect to live to the age of 77 on average. Nowadays a man can expect to live to 85 on average. For many years this increase in life expectancy was not taken into account, leading to unexpected and unfunded increases in pension scheme liabilities when the new life expectancy assumptions were used in calculations.
- **Economic factors**: Traditionally DB schemes were heavily invested in equities and the performance of the scheme was therefore dependant on the financial markets and suffered as a result of the financial market downturn from 2000 to 2003.
- **Member protection**: Member protection has increased as a result of changes to pensions legislation such as scheme funding rules, debt on the employer and general administrative rules. In addition, all eligible DB schemes must pay levies to the Pension Protection Fund.
- **Changes in accounting standards**: The introduction of the FRS 17 and IAS 19 accounting standards increased the exposure of pension funding costs in company accounts.

These factors have implications for the absolute costs of company pension funds and corporate risk as they are reflected in company balance sheets. In turn, there is an impact on the company share price. Pension funds have even been deal-breakers in the sale of some companies notably J Sainsbury and Alliance Boots.

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[1] Pensions Commission, *First Report* (2004), p. 123

[2] Lane, Clark and Peacock, *Accounting for Pensions* (2007). The six companies were British Airways, Corus, BT Group, ICI, BAE Systems and Royal & Sun Alliance.

2. Methodology

NAPF and ICAEW commissioned Network Research to carry out 200 telephone interviews with ICAEW "members in business" – *i.e.* qualified chartered accountants working in-house rather than for accounting practices that service a number of clients. Most respondents were Finance Directors or had similar titles (*e.g.* Vice President – Finance or Group Head of Finance). A few occupied other senior positions, including Managing Director and Directors of Operation. Interviews were conducted between 28 November and 11 December 2007.

About the respondents

The sample was selected to exclude organisations with no more than 50 employees. Almost half of the respondents worked for organisations with between 51 and 250 employees. More than one quarter worked for organisations employing in excess of 1,000 people. 42% had a defined benefit scheme, but only 8% offered defined benefit pensions to all new staff. Most provided contract-based defined contribution pensions for new employees, with higher contribution rates than the forthcoming 3% minimum.

Table 1. Number of employees

Number of employees	% of respondents
51-250	48
251-1,000	26
1,001-5,000	13
5,001-10,000	4
More than 10,000	9

Individuals rather than organisations join ICAEW. It is possible that in a few cases more than one individual from the sample employer answered the survey.

Public sector organisations were excluded from the sample. Respondents by industry were as follows:

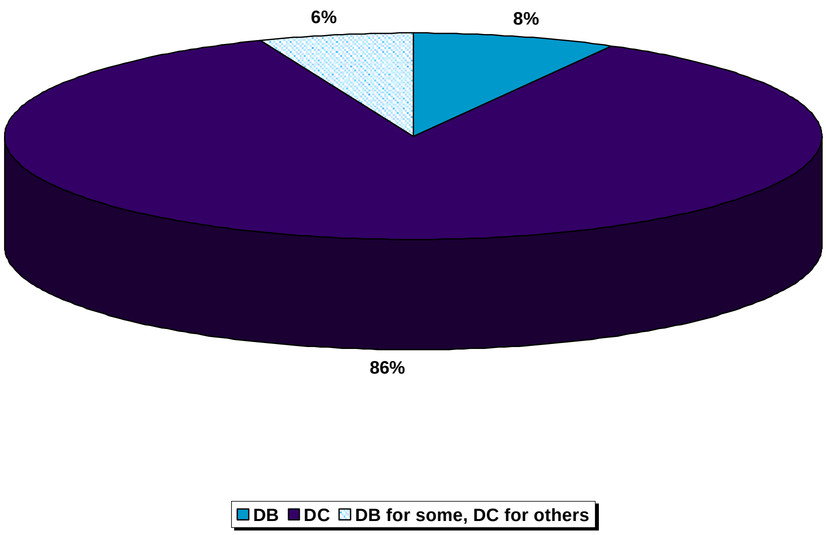
Table 2. Respondents by Industry

Industry group	% of respondents
Insurance	4
Charitable, Voluntary and Not For Profit	1.5
Construction, Property and Real Estate	12.5
Corporate Finance	4
Education and Training	2.5
Entertainment and Media	4.5
Healthcare / Pharmaceutical	4.5
IFAs and Financial Planning	2.5
Investment Management	2
Investment or Retail Banking	3.5
Law and Solicitors	3.5
Leisure Tourism and Hospitality	3.5
Manufacturing and Engineering	18
No Sector	1.5
Other	7.5
Other Financial Services	4
Private Equity and Venture Capital	0.5
Retail or Wholesale	7
Support Services or Professional	7.5
Technology ICT and Telecoms	5.5

Current pension provision

The sample was selected to ensure that all respondents have some sort of pension provision for new employees. In the vast majority of cases, the pensions offered to new employees were defined contribution pensions. Only 14% offered DB pensions to any new staff, and only 8% gave all new staff access to the DB scheme.

Figure 1. Pension provision for new employees

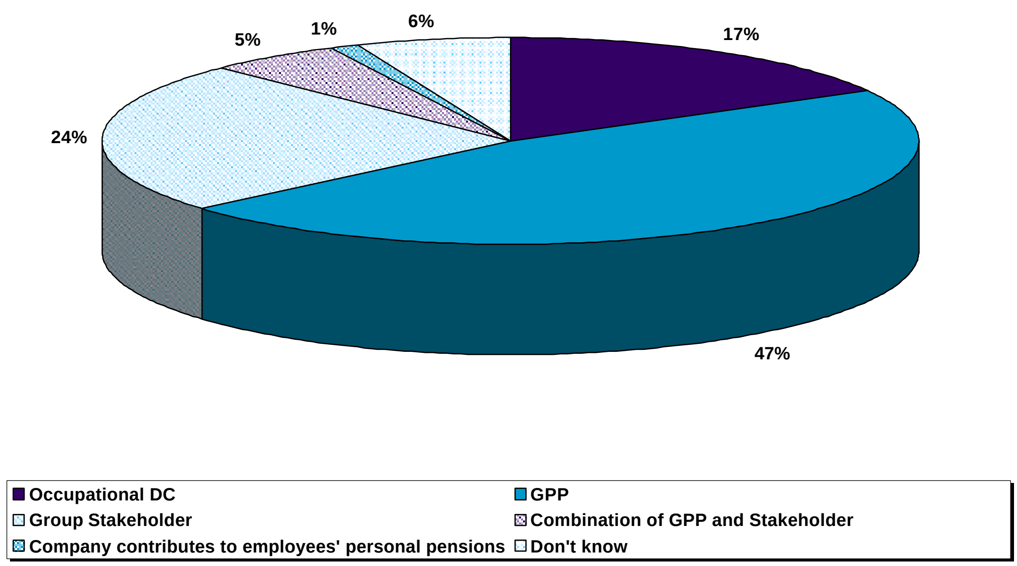


Base: All respondents

Out of 12 respondents whose organisations offer defined benefit pensions to some new employees and defined contribution pensions to others, only two say that DB pensions are offered to most new employees. Out of 18 who offer defined benefit pensions to all or most new employees, 15 say that their DB scheme is a final salary scheme.

DC provision covered by the survey was predominantly contract-based. Only 17% of employers with DC schemes offered occupational schemes overseen by trustees.

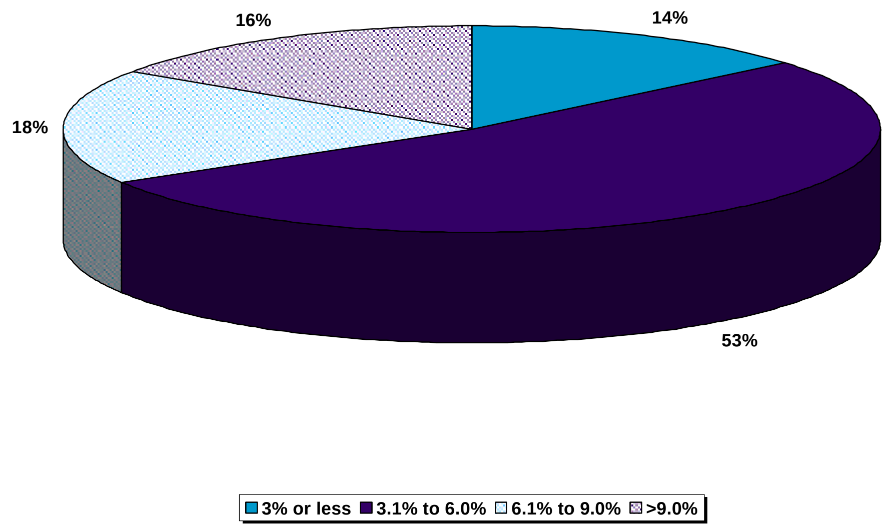
Figure 2. Type of DC scheme



Base: 182 respondents with DC schemes

86% of those with DC schemes said that the employer contribution was at least 3% of pensionable pay. Many DC schemes have different contribution rates for different employees – for example because age-related or matching scales are used. Where this was the case, respondents were asked to say which contribution rate was most common. The NAPF Annual Survey 2007 indicated that employee contribution rates averaged 4% of pensionable pay and employer contribution rates averaged 7%[3].

Figure 3. DC schemes by contribution rate



Base: All answering (174 respondents)

Defined benefit schemes

84 respondents worked for organisations with defined benefit schemes. 18 of these were open to new members. 46 were closed to new entrants but allowed existing members to continue accruing benefits. 20 were closed both to new entrants and to further accruals by existing members.

[3] NAPF, *Annual Survey* (2007), p. 50

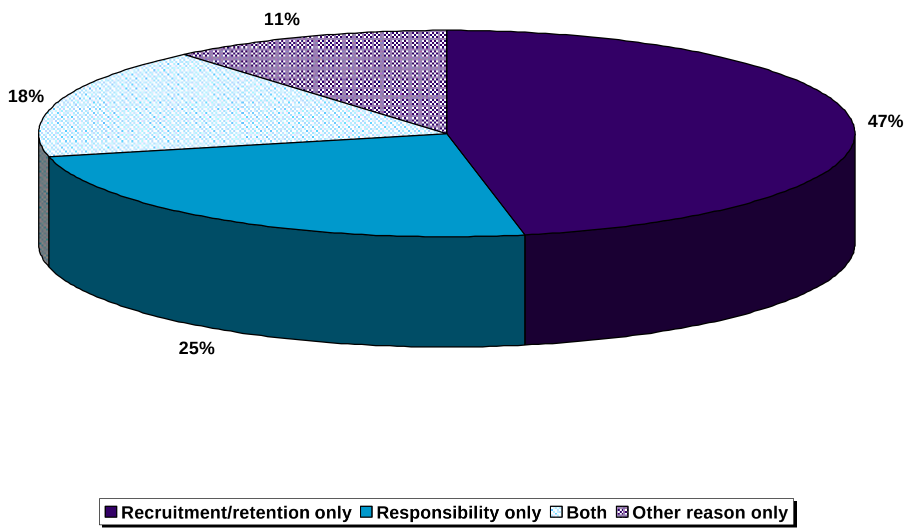
3. Why offer pensions?

Given that providing pensions is currently voluntary for employers, we asked survey respondents why they offer pensions.

Spontaneous answers

The two most common reasons offered without prompting were that pensions helped them to compete for staff in the labour market and that the employer felt responsible for helping employees prepare for retirement. Many cited both reasons, with 65% in total citing recruitment and retention.

Figure 4. Main reason for providing pensions[4]



Base: All respondents

Recruiting and retaining: Employers felt that offering a pension strengthened their position in the labour market in that it attracts the best employees. Some employers felt that candidates expect to get a pension contribution and that employer best practice dictates that employees

"It is part of the remuneration package we have to offer in the marketplace to attract the best employees."

[4] Some judgement has been used in order to categorise the very different forms of words used by respondents under these four headings. For example, where people said only that they provided the pension as an "employee benefit", they have been interpreted as saying that they are motivated both by the need to recruit and a desire to look after employees in retirement.

should be offered a good benefits package. In addition to attracting new employees to companies, a pension was considered to be a good retention tool and a way of keeping staff with a company.

"We feel that we have an obligation to ensure that our staff have enough money to retire and to encourage people to save."

Responsibility: Some employers cited a commitment to staff welfare as their reason for having a pension. Employers wished to provide stability for their employees when they leave and some felt that they wanted to help people because the state pension is not enough. Employers also felt that pensions are a complex issue for their staff and that they needed guidance as a result.

Another view: Some companies had inherited a pension scheme from another company which they had purchased, or new managers had seen that a pension scheme was something which was traditionally on offer at the company. In this case, respondents did not feel that a pension was an obvious recruitment factor, but felt obliged to offer it.

"It is something that traditionally has been on offer in the history of the company so it is hard to take away."

Prompted answers

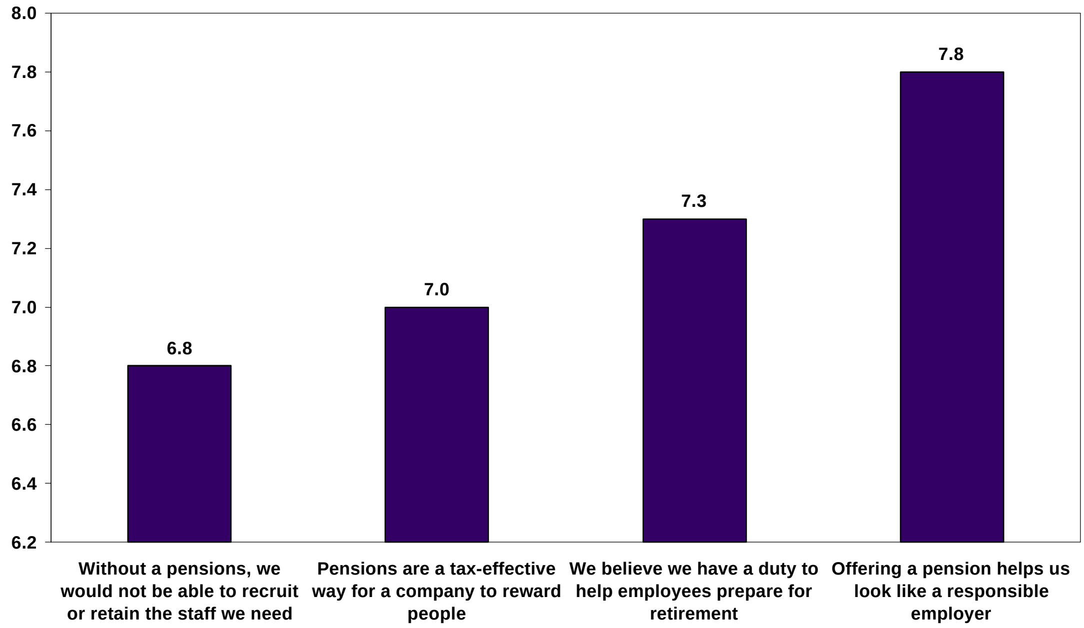
After asking FDs to describe in their own words why their organisation offered a pension, we asked them to use a scale of 1 to 10 to say how strongly they agreed with four statements that might explain why they provide pensions:

- Without a pension, we would not be able to recruit or retain the staff we need.
- Pensions are a tax-effective way for a company to reward people.
- We believe we have a duty to help employees prepare for retirement.
- Offering a pension helps us look like a responsible employer.

In all cases, the average score was close to seven out of 10.

Even though most respondents had spontaneously mentioned recruitment and retention, the *average* level of agreement with this statement was weaker than those recorded for the other three statements. This is partly because a small minority of respondents disagreed strongly with the view that pensions helped them recruit and retain staff: 5% of respondents gave this statement a score of just one out of 10 and 20% gave it a score of four or less. FDs working for larger employers typically agreed more strongly with the statement that pensions offered recruitment and retention benefits.

Figure 5. Reasons for providing pensions



Base: All respondents

On average, respondents agreed most strongly with the statement that offering a pension helps them to look like a responsible employer. 61% gave this statement a score of at least 8 out of 10.

These results do not conform to a stereotype of FDs focussed on the bottom line – statements about the company's responsibilities evoke a stronger response than those citing the practical case for offering pensions. Of course, these two philosophies need not conflict: some companies may calculate that appearing to be responsible employers will be profitable in the long term.

Employers who offered a higher contribution in DC schemes tended to agree more strongly with the statements. For example, the mean score attached to the view that pensions are a tax-effective way for a company to reward people was 6.8 amongst individuals whose companies offered a contribution of 3% or less but rose to 7.4 for those where the contribution exceeded 9%. Similarly, the mean score for the statement that the company has a duty to help employees prepare for retirement rose from 6.9 amongst individuals whose companies offered a contribution of 3% or less to 7.7 for those where the contribution exceeded 9%.

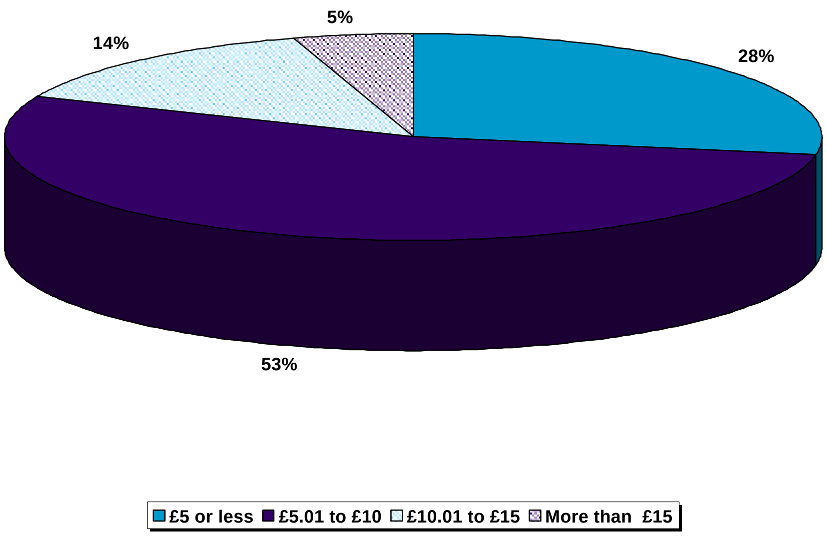
4. Resources and pensions

Employer contributions

Respondents were asked how much of their remuneration budget they would devote to pensions if they could start with a blank piece of paper rather than having to work within a framework agreed in the past.

53% said that they would spend between £5 and £10 for every £100 spent on salaries. 14% said that they would spend between £10 and £15 while 5% of respondents would spend more than £15. The current average contribution rates to private sector occupational schemes are 14.6% for DB and 5.8% for DC[5].

Figure 6. Amount respondents would spend on pensions for every £100 spent on salaries



Base: All answering (188 respondents)

Just 3% of respondents whose organisations contributed more than 6% of salary to DC schemes said that they would spend £5 or less on pensions for every £100 spent on salaries.

[5] ONS, *Occupational Pension Schemes Annual Report* (2007)

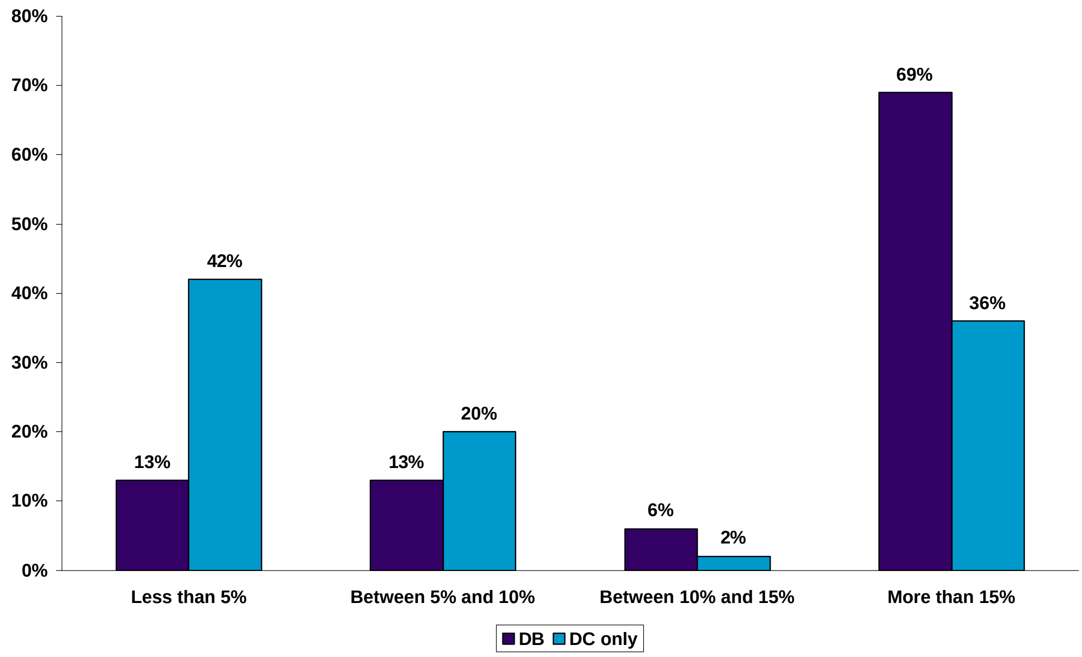
Pensions and board meetings

59% of total respondents said that pensions featured on the agenda at no more than one in ten board meetings and most of these (40%) said that pensions featured on the board agenda less than once a year where boards meet monthly.

However, there was a marked difference between DB and DC schemes in how often pensions were discussed at board meetings – the subject is discussed far more frequently by organisations who operate a DB scheme.

More than two-thirds of FDs whose organisations have DB schemes said that pensions feature on the agenda of at least 15% of board meetings. This was compared to just 36% of FDs whose organisations only operate a DC scheme. Similarly, pensions feature on the agenda of less than 1 in 20 board meetings in just 13% of organisations which run a DB scheme. This figure is much higher for DC scheme-only organisations, at 42%.

Figure 7. Percentage of board meetings where pensions are on the agenda



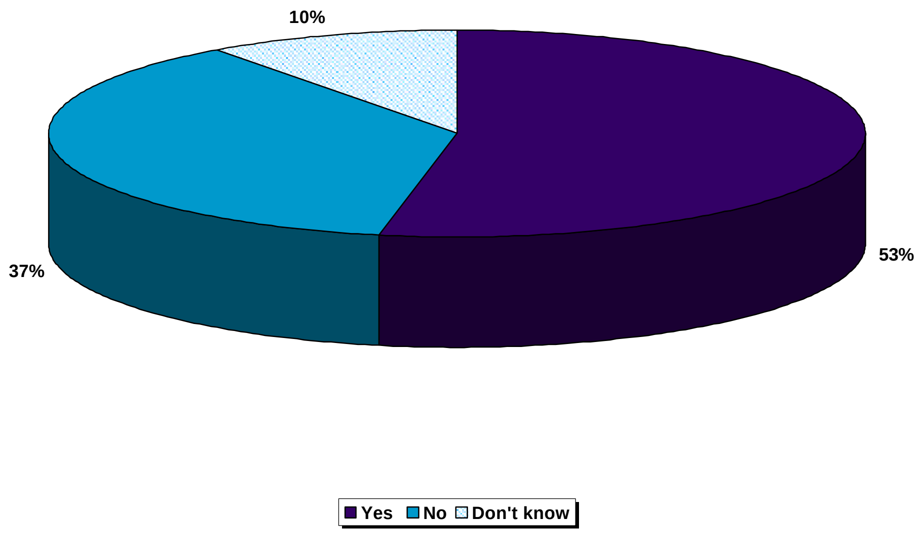
Base: All respondents

FD time and pensions

Only 17 respondents were themselves trustees of their organisation's occupational pension scheme. Nine of these had at some stage taken action to address conflicts of interest. Most often, this was by agreement not to take part in some trustee decisions (six of the nine). Three of the nine had left the room for some discussions, while the same number were asked to sign confidentiality agreements.

Just over half of respondents (53%) believed that, in principle, a Finance Director should be a member of a defined benefit scheme's trustee board. 37% thought that FDs should not be. The NAPF Annual Survey 2007 showed that in 30% of cases, the FD was serving as a trustee[6].

Figure 8. Should the Finance Director be on a defined benefit scheme's trustee board?



Base: All respondents

[6] NAPF, *Annual Survey* (2007)

5. Pension headaches

Respondents were asked to say what most worried them about their organisation's pension arrangements. They were asked to answer from the company's point of view, leaving aside any concerns they may have about their own likely retirement income.

Spontaneous responses

For pension headaches, the spontaneous responses were more varied.

Unsurprisingly, most of those with defined benefit schemes cited deficits, uncertainty about the eventual size of the liabilities, and/or the volatility of funding levels as their main worries. Others expressed concern about:

- The adequacy of their DC schemes and uncertainty about the outcomes any individual could achieve.
- Employees' lack of understanding where they shoulder the investment risk; and the danger that the employer could be held liable for investment performance.
- Legislative changes.
- Trustee liability.
- Low take-up.
- Employees not appreciating the value of pensions.
- Whether the pension compares favourably enough with those offered by competitors.
- Changes to the PPF risk-based levy which shift more of the cost onto well-funded schemes.
- Administrative challenges and the competence of suppliers.

"The size of the defined benefit schemes and the risks attached, the volatility, the performance and the inability to predict the total liability arising from these schemes."

Defined benefit worries: Deficits are the main worry for FDs with defined benefit schemes. They consider the cost to the employer to be volatile and are worried about the fact that they have no ability to define a certain cost in the future. The uncapped liabilities are a worry on account of changing mortality rates. There was also mention of the "defective" standards for measuring liabilities such as FRS17. The relative youth of employees also caused concern as FDs were concerned that as their staff get older, their liabilities will escalate.

"Making sure that employees understand the financial implications of a money purchase scheme, managing the investment profile and ensuring that during the lifetime of employment, employees manage their end pension expectations."

Defined contribution worries: The worries voiced about defined contribution schemes centred around the competence and ability of employees to understand the financial implications of a scheme, managing an investment profile and the complexity of legislation. For companies with both schemes, the imbalance between the perceived benefits was voiced as a concern. Another Finance Director noted that if the market were to change and other firms in the same sector offered a higher contribution, companies could become uncompetitive in recruitment terms.

"In the past, when they changed the rules it has cost the company more money. The administration costs and regulations are so excessive that the costs now are horrendous […] It is exceedingly expensive and time-consuming."

Other concerns: A number of other FDs quoted tax and regulation as worries for the future – as well as a lack of certainty surrounding what the Government will do regarding pensions in the future. The Pension Protection Fund levy was mentioned as a concern in the belief that it will punish companies with high funding ratios. The complexity and number of schemes was also considered to be a concern.

Prompted responses

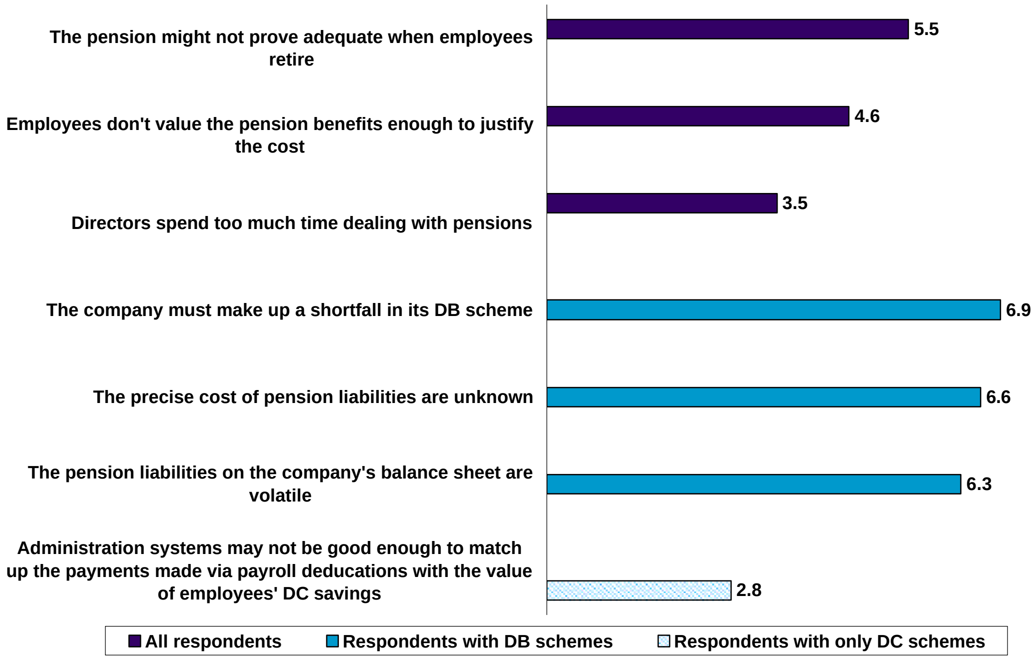
After asking respondents what concerned them most about their organisation's pension arrangements, the survey tested their views on specific concerns which some employers might have.

Amongst issues relevant to all respondents, concerns that the pension might not prove adequate when employees retire weighed most heavily. Respondents from smaller employers which had lower contributions were most likely to say this.

Unsurprisingly, factors specific to employers with defined benefit schemes generated the most concern where these were relevant. On average, respondents with DB schemes rated the need to correct deficits as their biggest worry, with nearly a quarter saying that this was a "10 out of 10" concern.

Uncertainty about how much it would eventually cost to discharge the liabilities and about how the measured funding level can change as the stock market and bond yields both fluctuate scored almost as highly. Respondents who had closed their schemes to existing members as well as to new members expressed higher-than-average levels of concern about longevity risk.

Figure 9. Concerns about pensions



Base: 200 for "all respondents" questions; 84 for DB questions; 182 for DC questions

Respondents with DC schemes were mostly sanguine about the performance of their administration systems, ranking this as a very low concern.

6. Expectations for the future

Pensions reform is a key issue for companies, particularly in the run-up to 2012. It is important that FDs are aware of the changes and challenges facing them. As part of the survey, respondents were asked how they expected the pension arrangements offered by UK companies as a whole (rather than their own organisations) to change over the next decade.

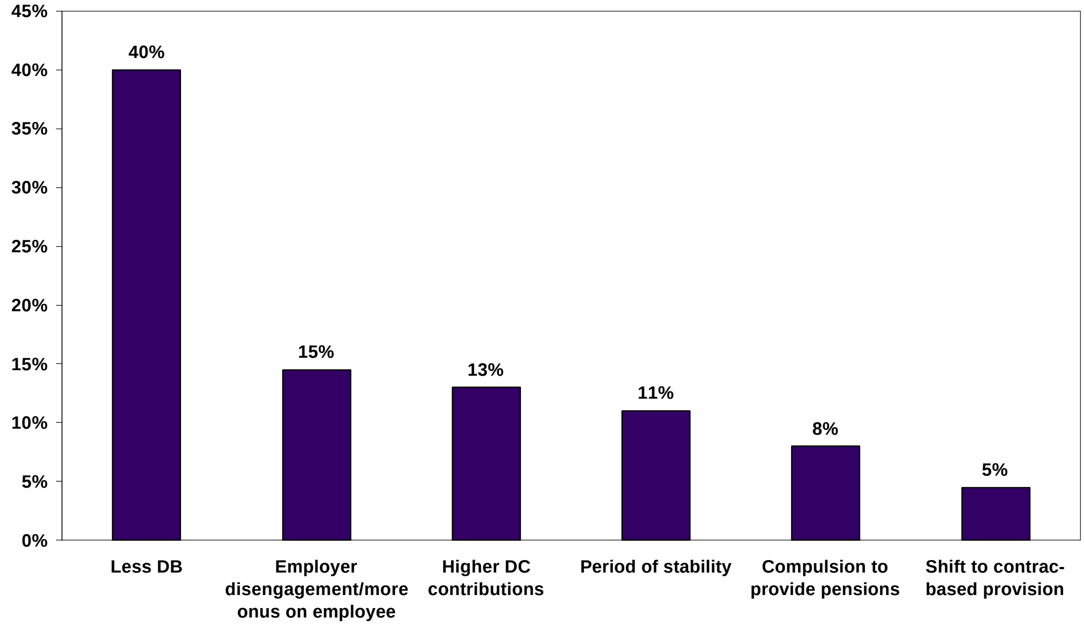
Overwhelmingly, the most common response was an expectation for the amount of defined benefit provision to decline. This finding may not be as dramatic as it sounds. The ONS estimates that around half of all active members in private sector DB schemes in April 2006 were in schemes that had closed to new entrants[7]. In these workplaces, a decline in DB provision is already pre-programmed to take place as existing employees leave the payroll.

However, some respondents went further and said they expected all DB provision to disappear or that they expected more schemes to close to future accruals. 15% predicted employer disengagement from pensions which places more of the onus and risk on the employee. 13% of respondents felt that there would be an increase in the value of contributions to DC schemes.

Amongst the latter group, one respondent speculated that employers would have more scope to increase DC contributions as DB deficits were paid off, while another thought it would become necessary as employees understood pensions better. Around one in ten respondents said that they expected a period of stability following the overhauls of pension arrangements in recent years.

[7] ONS, *Occupational Pension Schemes Survey* (2007)

Figure 10. Expected changes over the next 10 years



Base: 171 respondents. This excludes 29 respondents who either said they did not know what changes would take place or gave answers that could not easily be grouped together. A few respondents gave more than one answer, so feature more than once in this chart

In their own words: what changes do you expect over the next 10 years?

"I think that money purchase percentages will have to go up. The employers are having to meet deficits at the moment and there is a conflict between paying off deficits and trying to introduce higher money purchase percentages. There is a huge conflict between people who through history were in the final salary scheme and new people who are in the money purchase scheme."

Several FDs voiced the opinion that there will be a significant move toward defined contribution and that current rates of contribution will increase substantially for both employers and employees. With this move, the Directors believed that there would need to be improved administration and a wider range of investment choices. Employees were seen as becoming more knowledgeable about defined contribution, taking more interest and becoming more actively involved in managing their pensions. It was also expected that employers would focus on educating their employees in the need for retirement financial planning.

"I would expect pension provision by employers to be phased out and to be

replaced by a cash equivalent in salary. The employers will not want to take responsibility for the ultimate pension earned in a defined contribution scheme. They will want to shift the onus to the employees."

Employer disengagement was a recurring theme in the comments. Directors felt that they would try to shift the cost and risk onto the employee whenever possible. This could be offset by offering higher salaries in lieu of pension contributions. One Finance Director noted that staff were potentially more attracted by the headline salary figure rather than any pension arrangement. Decisions on pensions would be left up to employees more and more.

"I would imagine that defined benefit schemes will become a thing of the past and stakeholder schemes will become more of the norm. It's about certain costs to the employer. It's also more portable."

Due to the lack of certainty regarding defined benefit schemes, FDs commented that such schemes were likely to be wound up. In addition to the liability aspect, the argument was made that employees were now more mobile and thus required a more portable scheme. This switch to defined contribution schemes was predicted as also happening in the public sector by some FDs – "gold-plated" public sector pensions were seen as a thing of the past. One respondent believed that a defined benefit scheme was an obstacle to corporate transactions – viewed as a negative when looking into acquiring a company.

Funding position in the future

Having expressed concern about the funding levels in their defined benefit schemes and the uncertainty associated with this, FDs were asked how they would react if the funding position dramatically improved or deteriorated owing to factors outside their control such as changes in asset prices or new evidence on mortality rates. Lane, Clark and Peacock estimate that rising equity prices in the year to July 2007 reduced FTSE100 companies' deficits by around £30 billion[8], while Watson Wyatt estimate that changes to life expectancy assumptions used for accounting disclosures during 2007 may have increased these liabilities by £6 billion[9].

Given that the costs of providing pensions and concerns about scheme deficits weighted heavily with FDs, we asked what action they might take if the funding position changed for the better or worse.

In a potential situation where the funding position improves, nearly 70% of FDs declared that they would encourage a more cautious investment strategy in order to protect the improved position. 57% felt that they would take a buyout option for all or

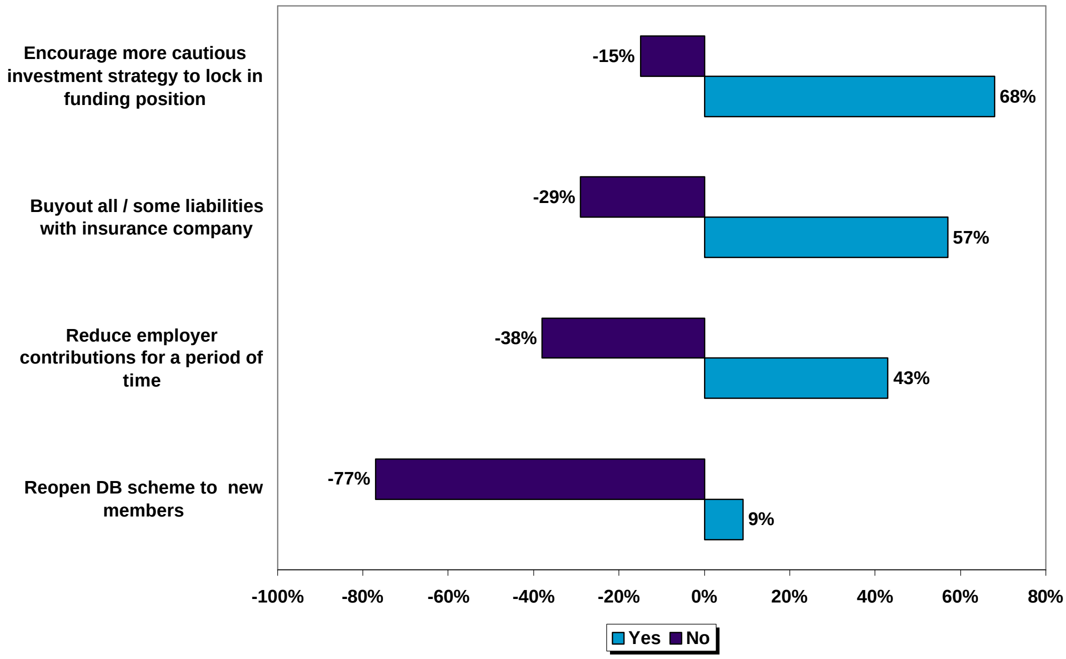
8 Accounting for Pensions,

9 Watson Wyatt press release, 7 February 2007; the £6 billion figure would be correct if all FTSE100 companies made similar adjustments to the 21 firms analysed.

some of the liabilities and 43% said that they would reduce employer contributions for a time.

The results were not encouraging for DB schemes as respondents were strongly against reopening such schemes to new members if the funding position were to improve. Just 9% considered this an action they would take while 77% said that they would not reopen DB schemes.

Figure 11. Changes Finance Directors would consider if DB funding position improves

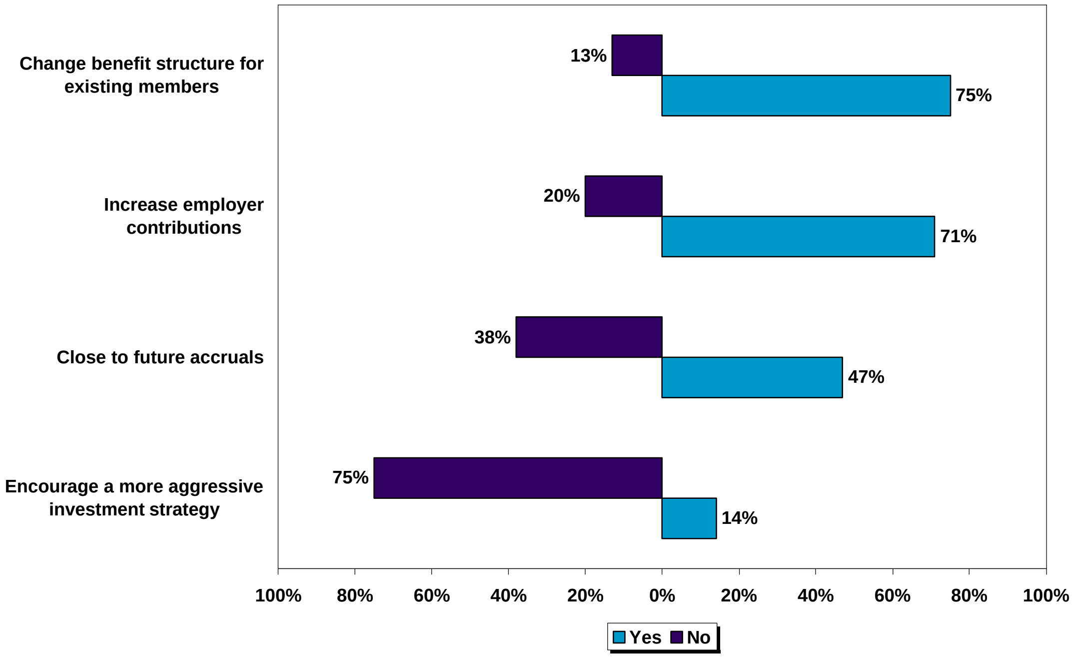


Base: All respondents offering a defined benefit scheme (84 Respondents) except option 4 (77 respondents)

In a future situation where the DB funding position worsens, three-quarters of FDs would resort to changing the benefit structure for existing members of DB schemes. However, almost the same percentage (71%) said that if the position worsens then they would increase employer contributions. 47% of respondents would close their scheme to future accruals were the funding position to worsen.

FDs were resoundingly against the option of encouraging a more aggressive investment strategy to balance out a worse funding position. Only 9% of FDs said that they would opt for a more aggressive strategy while 77% of respondents said that they would not use this option.

Figure 12. Changes Finance Directors would consider if DB funding position worsens



Base: 84 respondents for "encouraging the trustees to adopt a more aggressive investment strategy in order to make up the shortfall" and for "increasing employer contributions"; 55 respondents for "stop existing members from building up further defined benefit pensions" and for "allow employees to continue building up defined benefit pensions, but with a less generous benefit formula or higher employee contributions"

7. Pensions reform

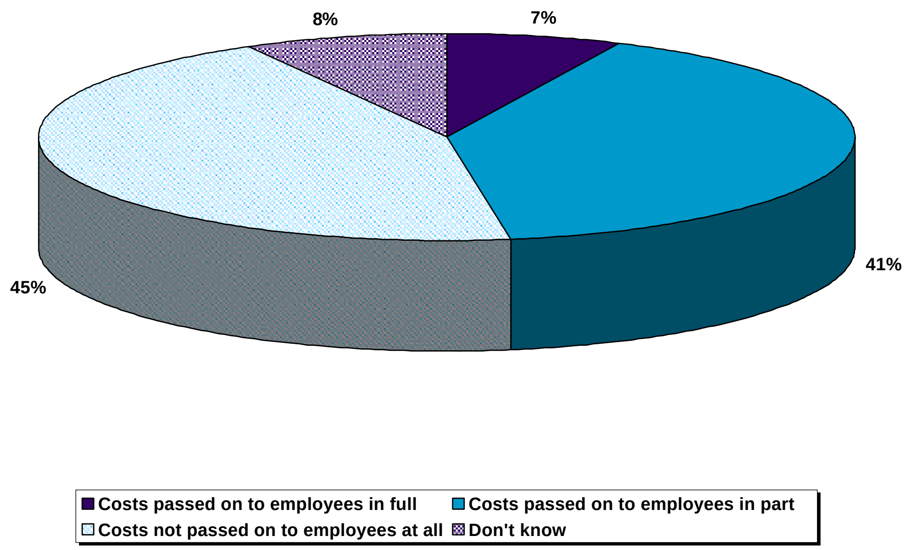
Following the more general exploration of what FDs' expectations for the future of pensions in the UK are, the survey gauged their opinions on pensions reform and how it will affect them. In order to do this, it was explained to respondents that:

"From 2012, all employees aged 22 or over must be automatically enrolled into a pension with an employer contribution of at least 3%. This means that employers will have to pay pension contributions for everyone who does not actively opt out, not just for those who choose to join the pension."

The impact of the introduction of auto-enrolment on employers' pension costs could be significant if employers choose to auto-enrol employees into existing schemes at existing contribution and benefit rates. For example, the Department of Work and Pensions has estimated that the cost of pensions reform to small and medium sized enterprises could be £1.6 billion[10]. Given these new cost pressures on schemes, the attitude of FDs is important in determining the future of existing provision post-2012.

Only 7% of respondents said they expected the full costs of complying with the new laws to be passed on to employees in full. The remainder were split between those saying the company would meet all of the costs and those saying that the costs would be partly passed on to employees.

Figure 13. Who will pay for auto-enrolment?



Base: All respondents

[10] DWP, *Pensions Bill Impact Assessment* (2007) Annex A

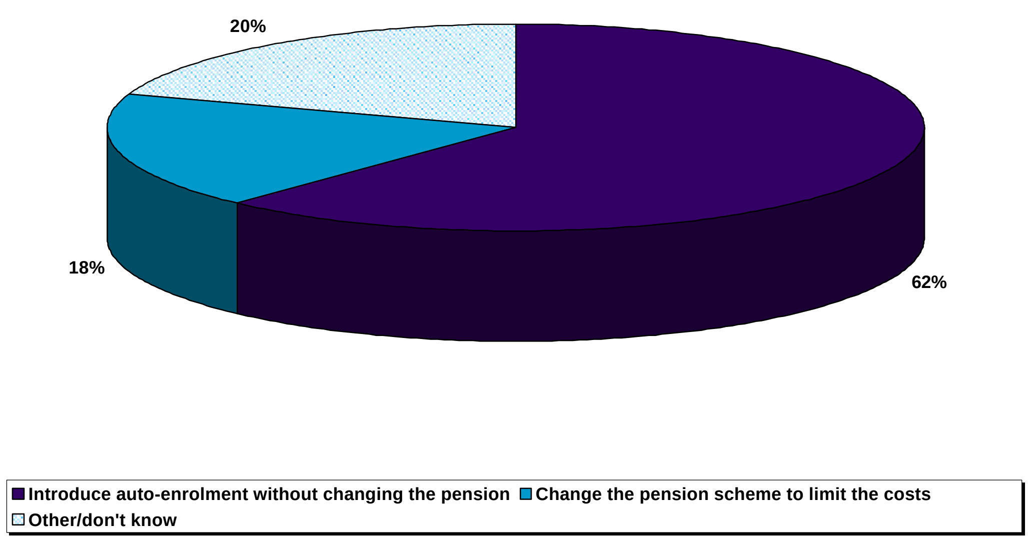
Risk of levelling down

One argument against the idea of compulsory employer contributions is that if employers are obliged to pay 3% for everybody, they will cut back the benefits of those who are currently receiving more. This is known as "levelling down". This survey indicates that while a majority of FDs do not expect to change the pension offered when introducing automatic enrolment, a significant percentage either expect to change the pension or do not know how they will react.

Three-quarters of all respondents worked for organisations which offer respondents either a DC scheme with an employer contribution exceeding 3% or a defined benefit scheme. One quarter of these say either that they already use auto-enrolment or that they have achieved high take-up rates by other means, and so do not expect the reforms to affect them.

Of the remainder, 62% said they expected to introduce automatic enrolment without changing the pension offered to new employees. This is slightly higher than the 51% recorded by a recent DWP survey. However, more than one-third said either that they did not know how they would react to the reforms or thought that they would change the pension scheme to limit the costs.

Figure 14. Do Finance Directors with good schemes expect to change their pensions?



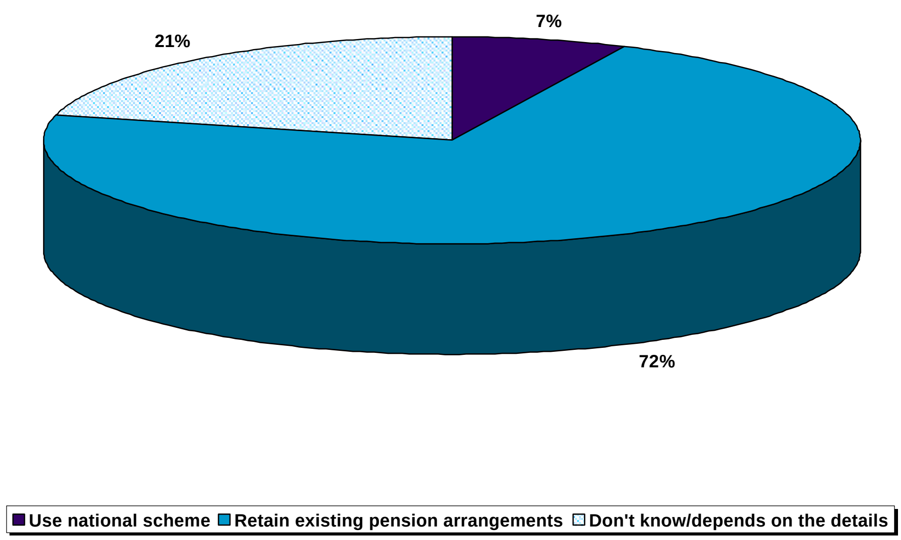
Base: Excludes those saying they already use auto-enrolment or have close to 100% take-up

In some cases, FDs could be underestimating the impact of pension reforms. NAPF's 2007 Annual Survey found that only 40% of schemes expected that they would have to automatically enrol some existing employees as a result of the reforms. In practice, any employer who has not achieved 100% take-up amongst employees in the relevant income and earnings bands will have to do so.

Of the 12% of respondents who expected to offset the costs of higher participation through lower contribution rates, only four said that they expected that these changes would affect some existing members of the scheme as well as people joining the scheme in future. However, as we have seen where final salary schemes have closed to new members only; staff turnover would gradually reduce the number of employees in these workplaces benefiting from existing pension benefits even where changes only apply to new members.

It was explained to respondents that, from 2012, they would have the option of paying contributions to a new national defined contribution scheme which the Government is setting up rather than to their own schemes. Only 7% said that they expected to abandon their existing pension arrangements in favour of the new national scheme (and most of these said that would only be the case for new employees). However, one in five said they did not know or that it would depend on the details.

Figure 15. Type of pensions vehicle



Base: All respondents

Conclusion

The survey shows that FDs consider pensions to be an important part of their company's offer – helping to maintain their place in the market as a responsible employer that can attract the best new staff.

FDs demonstrated their commitment to pensions by saying that they would spend more than £5 on pensions for every £100 spent on salaries. 13% of FDs felt that contributions to money purchase schemes would get bigger in the future. Furthermore, 45% said that the costs associated with the 2012 reforms would be met by the employer in full.

FDs also felt that companies had a responsibility toward their staff to ensure that their income in retirement is sufficient. This is underscored by the fact that the biggest concern about pensions amongst respondents was that pensions may prove inadequate for their employees when they retire.

Annex 1: List of tables and figures

Securing the future of pensions

National Association of Pension Funds Limited©
NIOC House
4 Victoria Street
London SW1H 0NX

Tel: 020 7808 1300
Fax: 020 7222 7585
Email: **napf@napf.co.uk**
www.napf.co.uk

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