

## Employers' Pension Provision Survey 2005

By Stephen McKay

This regular survey collects information about pension provision in the private sector in Great Britain. The main findings from the 2005 survey are summarised below.

In 2005 2,401 private sector employers in Britain took part in a telephone interview on pensions. This was the sixth in a series of similar surveys, which began in 1994. The 2005 questions were based on those used before to track trends over time. They covered:

- the employing organisation;
- pension arrangements;
- recent and planned changes;

The sample was drawn from the Government's Inter-Departmental Business Register (IDBR), a comprehensive list of employers constructed from VAT and tax returns. All private sector companies with more than 5,000 employees were contacted (66 per cent took part), as was a representative sample of firms with fewer than 5,000 employees. The larger employers account for most private sector employment, but the survey represents private sector employers as a whole.

### Key findings

Thirty four per cent of all private sector employees were members of a pension scheme provided via their employer; a decrease from 38 per cent in 2003.

Fewer firms provided pensions for their employees in 2005 (44 per cent) than in 2003 (52 per cent). But similar proportion of firms (15 per cent) were contributing to their employees'

**personal pensions** and more were contributing to **Stakeholder pensions** – seven per cent in 2005 compared with five per cent in 2003.

Around 70 per cent of workers in companies with one to four employees were not participating in any kind of employer pension arrangement. But even among the largest organisations (those with 1000 or more employees) only around half had joined.

**Occupational pensions** were found in only six per cent of firms, but these employed 44 per cent of all private sector workers. Between 2003 and 2005 there was a considerable reduction in the proportion of employees in *open* occupational schemes – from 16 to ten per cent in **open defined benefit schemes**, and from six to four per cent in **open defined contribution** schemes.

The findings suggest a positive relationship between employer contributions and level of participation in employer pension schemes. Due to data limitations it was difficult at this stage to explore the nature of that relationship in more depth.

Employers reported two main factors – employee choice (50 per cent) and scheme or expert advice (50 per cent) – as the main influences on the arrangements they made for employees to join the pension scheme.

Where the firm used **automatic enrolment**, the proportion of employees in a pension arrangement averaged 60 per cent (median 77 per cent). This compared to 43 per cent for those using a **streamlined joining** method, and 41 per cent for those using **traditional opt-in** and only 33 per cent for those using a simple Yes/No declaration – '*active decision making*'. (These

results are based on firms with 20 or more employees.)

Some two thirds (63 per cent) of firms with defined benefit schemes were aware of the newly introduced Pension Protection Fund (PPF). Views regarding the impact of the PPF on employers were relatively positive.

## Summary of findings

### Overview of private sector pensions

Private sector employers offered a mixture of occupational pensions, group personal pensions (GPPs), personal pensions and Stakeholder pensions (SHPs), with some offering more than one pension type.

Of all employees in any kind of employer pension arrangement, 62 per cent were members of **occupational pension** schemes. They made up 21 per cent of the total private sector workforce.

Two per cent of firms, employing 23 per cent of private sector workers, had an **open** occupational pension scheme.

**Group Personal Pensions** (GPP) were offered by six per cent of firms, employing one-third of workers (33 per cent). Nineteen per cent of private sector workers in an employer pension arrangement of any kind were members of GPPs arranged by their employer.

Fifteen per cent of private sector firms, employing 24 per cent of all private sector workers, were making contributions to some of their employees' own **personal pension** plans. Despite the relatively high proportion of firms who made contributions towards employees' personal pensions this covered only two per cent of private sector employees, and made up about six per cent of active members of any employer-provided pension.

Twenty nine per cent of employers, employing 56 per cent of all private sector workers, provided access to **Stakeholder pensions**. Around one quarter of the employers who provided

access to Stakeholder pensions (seven per cent of firms overall) contributed to their employees' Stakeholder pensions.

## Key trends

There was no significant change in the proportion of firms offering **occupational pensions** (from seven per cent in 2003 to six per cent in 2005). However, more tellingly, the proportion of firms with an **open** occupational scheme fell from four to two per cent since 2003.

The proportion of firms offering a **GPP** halved, from 12 per cent in 2003 to six per cent in 2005. Over the same period the proportion of private sector employees whose firm offered a GPP fell from 38 per cent to 33 per cent.

Slightly more firms were contributing to Stakeholder pensions in 2005 (seven per cent) compared with 2003 (five per cent).

The proportion of employees who were **active members** of some form of pension arrangement via their employer fell from 38 per cent in 2003 to 34 per cent in 2005.

## Occupational pensions

Six per cent of private sector employers had an **occupational pension** scheme but only two per cent had an **open** occupational scheme that new employees can join. Such employers were predominantly large firms, 45 per cent employing at least 1000 staff, and three-quarters (74 per cent) employing 5000 or more workers.

Firms with at least half their staff working full-time were somewhat more likely to have occupational pensions. Companies established more recently were, independently of size, less likely to provide occupational pensions.

Defined benefit schemes that were still **open** were overwhelmingly likely to be contributory (97 per cent), whilst the majority of **closed** defined benefit schemes were non-contributory (78 per cent).

Among both open and closed occupational schemes 44 per cent were contracted out of S2P.

In 2005 employers were, on average, contributing ten per cent of members' salaries to open defined benefit schemes and 15 per cent to closed defined benefit schemes.

For defined contribution schemes, employers were contributing on average five per cent of salaries to open and 12 per cent to closed defined contribution schemes.

The employee contribution to occupational schemes was usually lower, averaging six per cent of salary.

The 'normal pension age' is the age at which employees are able to retire from a pension scheme. For women, the normal pension age had moved towards 65; 29 per cent of schemes had this age in 2005 compared with only 19 per cent in 2003. For men the normal pension age appears to have been lowered to 60 in some schemes; 43 per cent of schemes in 2005 compared with 32 per cent in 2003).

### *Stakeholder pensions*

Overall 29 per cent of organisations, employing 56 per cent of employees, offered access to a Stakeholder pension for at least some employees. This was lowest among very small employers (one to four employees) but rose to around two thirds of medium sized employers (13 to 999 employees).

Looking at employers as a whole, including non-providers, in 11 per cent of firms someone had joined a Stakeholder pension, whilst in seven per cent of firms somebody had joined the Stakeholder pension **and** the employer was also making a contribution.

The 11 per cent of firms where someone had joined a Stakeholder pension employed 35 per cent of all workers.

Half of the Stakeholder pensions in the survey had just one member whilst a further 27 per cent had between two and four active members. Sixty eight per cent of firms providing Stakeholder pensions were contributing to them for at least some of their members with a median level of employer contribution of six per cent of employees' salary.

### *Group personal pensions*

Overall six per cent of organisations, employing one in three of all employees, had set up a GPP. The proportion was substantially higher (47 per cent) for companies with 1,000 or more employees.

Firms in the financial and property-related sectors were more likely than firms in other sectors to be providing GPPs. GPPs were also more common among firms with high proportions of full time staff.

Many GPPs were relatively small; 12 per cent had only one active member and in a further 43 per cent of schemes there were two to four members. In only 13 per cent of GPPs were there more than 30 members.

Most firms with a GPP (94 per cent) were contributing to them for at least some members (and usually for all). Employers contributed five per cent of pay on average (median figure).

Firms with an occupational scheme were among the least likely to be providing a Group Personal Pension, particularly where the firm had an open occupational scheme.

### *Employers contributing to employees' Personal pensions*

Overall 15 per cent of private sector employers were contributing to their employees' **personal pensions**. Typically, employers made such provision for only one or two members of staff (61 per cent and 28 per cent respectively).

Almost one in five of these arrangements, 18 per cent, had begun since 2003. Among smaller firms 18 per cent of contributions to personal pensions had started in the last two years. In only three per cent of cases was a different kind of pension provision previously made for these staff, i.e. this was a new pension provision.

The rates of employer contribution were often quoted in money amounts, with £100 per calendar month and £3,600 per calendar year, the most frequently cited. When expressed as a

percentage of pay (a minority of those with such an arrangement) the median rate was eight per cent.

### How employees join pensions

Employers provided information on how employees joined their largest open pension schemes. It was fairly common for employees to complete a short form, '*streamlined joining*', (27 per cent); or simply to make a Yes-No declaration, '*active decision making*', (26 per cent). In 13 per cent of firms, the form was extensive, '*traditional opt-in*', and four per cent of employers were using a type of **automatic enrolment** (where employees are automatically made members of the scheme unless or until they opt out). Automatic enrolment was most common for GPPs (ten per cent used this approach).

Statistical analyses found that where the joining mechanism was auto-enrolment, participation rates were 18 percentage points higher than in those schemes where the joining mechanism involved completing a longer form.

On joining an organisation, employees may receive a variety of information about the pension scheme. Around one quarter of firms (26 per cent) appeared to provide no information at all routinely, but the figures are distorted by the 41 per cent of firms with one to four employees who provided no information at all. Information was commonly provided in the form of paper-based leaflets and newsletters.

Firms used a number of methods to encourage higher contributions from members, including individual advice sessions (22 per cent), regular information (14 per cent), and sometimes a system of contributions that escalated over time (eight per cent). But most firms with fewer than 100 workers did not do any of these things.

### Recent and planned changes to pension provision

Many firms (56 per cent, representing 16 per cent of the private sector workforce) did not offer access to pensions of any kind. When asked why they did not provide access to pensions for

their employees, the most common reasons they cited were being too small (40 per cent) and the view that pension provision was too costly (15 per cent).

Amongst firm with at least 20 employees but without any kind of pension provision, just over half (51 per cent) had seriously considered introducing provision and 43 per cent expected to make pension provision available in the next five years.

The full report of these research findings is published for the Department for Work and Pensions by Corporate Document Services (ISBN 1 84123 980 1. Research Report 329. March 2006).

It is available from Paul Noakes at the address below.

You can also download this report free from: [www.dwp.gov.uk/asd/asd5/rrs-index.asp](http://www.dwp.gov.uk/asd/asd5/rrs-index.asp)

Other report summaries in the research series are also available from the website above and from:

Paul Noakes, Strategic Research and Modelling Division, 4th Floor, The Adelphi, 1-11 John Adam Street, London WC2N 6HT. E-mail: [Paul.Noakes@dwp.gsi.gov.uk](mailto:Paul.Noakes@dwp.gsi.gov.uk)