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15 June 2006 **The 2005 GAD survey of occupational pension schemes**

NR 2006(1) **Today sees the publication of results from the Government Actuary's thirteenth survey of occupational pension schemes, giving details for schemes in 2005.**

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 2005 – thirteenth survey by the Government Actuary" published today on GAD's website:

http://www.gad.gov.uk/Pensions/2005_OPSS/results.htm

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

Chris Daykin, Government Actuary, welcomed the publication: "The Pensions White Paper published last month highlights the government's commitment to further simplification of legislation for occupational pensions. It also emphasizes the need for the value of scheme benefits to be communicated to members. By revealing more about how schemes administer themselves, communicate with their members and how much it costs for them to do these things, this latest survey should allow better informed debate during the White Paper consultation period and beyond."

About the survey

Schemes were asked to provide data as at April 2005. The questions were chosen following consultation with other government departments and public bodies, and representatives of the pensions industry. Whereas previous surveys focused on numbers of schemes and their membership and on the benefits they offer, this survey concentrates on the administration of schemes, communication with scheme members, and the expenses of running schemes.

Questionnaires were sent to a random sample of just over 1,800 private-sector schemes drawn from the Pension Schemes Registry database. Schemes covering around 69% of all members responded. The schemes in the survey were of all sizes, and included "frozen" schemes (where benefits no longer accrue) and schemes that were in the process of winding up, as well as those open to new members.



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Unlike earlier surveys by the Government Actuary, this survey does not cover public-sector pension schemes. It was felt that issues of administration, communication and expenses were more relevant for private-sector schemes than for public-sector schemes. This approach allowed more private-sector schemes to be included in the sample.

A facility on the GAD website will allow researchers with specific queries to get tailored results from the database of survey responses (with protection of the confidentiality of data on individual schemes).

This survey is the thirteenth in a series conducted by the Government Actuary since the mid-1950s. The previous survey was as at 2004. Results from that survey and some summary results from earlier surveys are available on the GAD website.

Future work

Following the Government's acceptance in March 2005 of the Morris Review recommendations, the responsibility for running the occupational pension schemes surveys is being transferred from the Government Actuary's Department to the Office for National Statistics (ONS) for the 2006 survey onwards. Work is already in hand for a 2006 survey, which ONS is planning to run on very similar lines to GAD. Following user consultation, the questions in the 2006 survey will be based on the 2004 questionnaire.

More details

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For more information on future surveys to be conducted by the Office for National Statistics (ONS), please contact :
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Key results from the 2005 GAD survey (with chapter references)

Scheme numbers (chapter 2)

- Survey-based estimates of the number of schemes 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 UK with 12 or more members is 14,200
- The majority of schemes with more than 100 members were defined-benefit; a significant proportion were closed or frozen
- Schemes with between 12 and 99 members were more often defined-contribution than defined-benefit
- There are around 55,000 very small private-sector schemes with fewer than 12 members. Most are defined-contribution schemes

Scheme membership (chapter 3)

- 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.
- The estimated number of active employee members of private-sector schemes for 2005 is 4.7 million – down 0.1 million since 2004, and a continuation of a decline since 1991
- The estimated number of pensions in payment from private-sector schemes is 5.3 million and the estimated number of preserved pension entitlements is 6.4 million
- Nearly all members of private-sector defined-benefit schemes were contracted-out of the State second pension, compared to only around 10% of members of defined-contribution schemes
- Around 85% of active employee members of open private-sector schemes are in schemes for all categories of employees
- Around 50% of active employee members of private-sector schemes are in schemes which automatically make eligible new employees members of the scheme with the right to opt out (“auto-enrolment”)
- In the private sector, most members are in schemes which have a policy of always transferring out pension credit members (former spouses of members with rights following a divorce)



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Scheme administration (chapter 4)

- Most large, open private-sector defined-benefit schemes are administered wholly in house. Closed defined-benefit schemes tend to outsource their administration more than open schemes
- Defined-contribution schemes of all sizes seem to favour outsourcing scheme administration to insurers or third party administrators
- The most popular reason stated for appointing a third party administrator is that schemes are best operated by specialist companies
- For most scheme benefit types and sizes, the favoured period between reviews of outsourced administrators is three years
- Most schemes set standards for the administration of different tasks; there are often considerable differences in the standards

Expenses of administering schemes (chapter 5)

- Average costs per member of administering schemes in the private sector are generally higher for smaller schemes than for larger schemes. Schemes administered wholly in-house tend to have lower costs than those that outsource administration

Communications (chapter 6)

- Most private-sector schemes issue benefit statements to members annually (as opposed to on an “on request” basis)
- Defined-contribution schemes most often issue the statutory money purchase illustrations within 3 to 6 months of the year end
- The larger a scheme is, the more likely it is to have a regular newsletter, and the more likely it is for the 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
- Large schemes are most likely to produce a summary version of the trustees’ report and accounts for members. Smaller schemes are slightly more likely than large schemes to send the full version
- Over two-thirds of schemes in the largest size-band operate an internet or intranet site



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Features of defined-contribution schemes (chapter 7)

- Over half the non-pensioner members of defined-contribution schemes are in schemes which practice “lifestyling” for members’ investments, either as the only option or as the default option
- “Lifestyling” typically involves moving from a 100% equity asset allocation for younger members to an allocation split 25%-75% cash-bonds at retirement, with the change generally starting within 10 years of retirement
- Just under one-quarter of active employee members of defined-contribution schemes belong to schemes with some kind of “salary sacrifice” arrangement. Reducing members’ salaries by the notional amount of the employee contribution, with all contributions being paid by the employer, is the most common approach

Contributions to schemes (chapter 8)

- In private-sector defined-benefit schemes, both employee and employer contributions have risen slightly on average since 2004
- Average contributions of employees’ and employers’ to defined-benefit schemes are higher than to defined-contribution schemes
- A higher proportion of members pay additional voluntary contributions in defined-contribution schemes than in defined-benefit schemes, with scheme size appearing to have little effect

Very small schemes, winding up schemes and changes to schemes (chapters 9, 10 and 11)

- There are around 170,000 members of very small schemes
- There are around 344,000 members of schemes which are winding up – around 84,000 with pensions in payment and around 260,000 with preserved pension entitlements
- The most common single change made to private-sector defined-benefit schemes was an increase in employer contribution rates
- The most common single change made to defined-contribution schemes was to modify the range of investment choices offered
- About two-fifths of both defined-benefit and defined-contribution schemes, are considering changes in the light of pension tax simplification



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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 pensions, insurance and social security. 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 around 105 civil servants including about 40 qualified actuaries.

2. GAD consists of two operating units, UK Business and International Business. The first advises UK public-sector pension clients on occupational pension arrangements, and UK government departments and agencies on matters relating to the policy for and regulation of all type of pensions. The work for public-sector pension clients includes carrying out periodic valuations of assets and liabilities, funding rate advice, general pensions consultancy, bulk transfers, asset/liability studies and privatisation terms. The International Business unit provides advice on social security arrangements in the United Kingdom and certain overseas countries, and advises overseas clients in connection with the supervision of both life and general insurance.

3. The Morris Review of the actuarial profession, including a review of GAD, recommended in March 2005 that responsibility for occupational pension schemes surveys should be transferred away from GAD. The decision for the move to ONS was taken by a group headed by HM Treasury charged with overseeing the implementation of the review's recommendations relating to GAD.

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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