Final Report of the ACA 2021
Pension trends survey

ACA
ASSOCIATION OF CONSULTING ACTUARIES

Pensions: *Key reforms still needed to avoid crisis*

- Whilst employers support increased minimum contributions and other pensions and savings reforms, the Government is failing to act in key areas in a timely way
- Two-thirds of employers would consider contributing to a more flexible savings vehicle used for retirement and other purposes
- A majority of employers want industry-wide and multi-employer Collective DC schemes
- Employers and schemes are concerned at the level of regulatory overload
- Schemes are reacting positively to climate change investment risks and opportunities

Survey conducted by the Association of Consulting Actuaries | March 2022

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"Businesses and savers want flexibility with digital access through dashboards."

A year ago, in my introduction to last year's survey, I said that reading the results gave me a sense of optimism. British business has a clear collective view on the issues our society faces. It also has the appetite to use pensions to make society fairer and tackle climate risk. I added that 'this calls for far-sighted policies, as part of any plan to 'build back better".

A year on, my optimism has to a degree been dulled by inaction in a number of key public policy areas. In important areas actions to implement measures have been at a snail's pace, fostering doubts about where policies are heading. This is presenting immense day to day challenges to pension scheme trustees and sponsors, and their advisers.

The delay in finalising a new DB funding code is just one example. Yes, we don't want the policy to be rushed so we end up with an unworkable regime, but with the second consultation on the code moving to the late summer of 2022 and draft regulations yet unseen, it means those involved in advising and running DB schemes are in limbo, second guessing what the likely contents of the code will be. We earnestly hope the code, when it appears, encompasses the 'Seven Key Elements', outlined in this survey Report, and sought by employers and schemes alike.

Whilst the numbers leaving AE schemes due to the impact of the pandemic is probably less than expected, it remains the case that over 14 million of our most vulnerable workers and the self-employed still aren't covered by auto-enrolment. This is shameful. Regardless of the costs, British business near universally supports widening auto-enrolment to cover more workers, starting from age of 18 and from the first £1 of earnings. However, the Government continues to ignore these calls.

British business is also rightly worried that we're not saving enough and supports increasing auto-enrolment minimum contributions. Doing so would address inequities in today's pension landscape, which hit women, minority groups and the poorest hardest. Extending this to make pensions more flexible and better integrated with later-life social care would help everyone. The Government's inaction in this policy area is particularly concerning. We are seeing millions of workers in DC schemes 'sleep walking' towards levels of income in retirement in the years ahead that will fall far short of the incomes of millions of current pensioners who have benefitted from defined benefit arrangements. Without an uptick in savings levels, the younger generation of taxpayers of tomorrow will face enormous bills to support the elderly in retirement, dwarfing the extra funds recently allocated to social care.

The ludicrous complexity of pensions tax is also preventing Britons from saving. It is time for a root and branch review, to get us saving for our futures. Again, no action has been taken. Businesses and savers want flexibility with digital access through dashboards (where progress is again worryingly slow and increasingly unlikely to meet the stated launch timetable).

But, as I said last year, it's not all doom and gloom. There remains strong business support for pensions becoming central to tackling climate risk, with savers demanding action and schemes beginning to grasp the nettle. And there's an increasing appetite beyond Royal Mail for Collective Defined Contribution as a new way of saving, provided the regulatory regime is proportionate and is extended widely to more employers in a timely way.

I would like to thank all those who responded to our survey and sincerely hope that the Government heeds your collective voice.

Patrick Bloomfield
Chair
Association of Consulting Actuaries

Executive summary

The Pension trends survey was conducted by the Association of Consulting Actuaries (ACA) in the summer of 2021 for online completion and was circulated to UK employers of all sizes, selected on a random basis. Responses were received from 212 employers sponsoring over 400 pension schemes.

'Top 10' Key findings of survey: final and preliminary reports

This year's survey included responses from **212 employers of all sizes**

Pension contributions

1 see page 13

employers support minimum AE contribution of **12%** of total earnings, of which **6%** is paid be employees (this view is more strongly held by employers with more than 500 employees).

2 see page 14

84% of employers thought the introduction of the new NHS/ Social Care tax made it unlikely AE contributions would be increased during this Parliament.

Auto-enrolment leavers

3 see page 15

Number of employers seeing AE cessation rates materially increase doubled from **1 in 10** to **1 in 5** as a result of the Covid pandemic.

Flexible savings options

4 see page 17

67% (up from 47% a year ago) say they would consider paying an employer contribution into a more flexible savings vehicle that could be used for retirement savings and other purposes, such as house purchase, with due safeguards.

Pension taxation

5 see page 18

89% say the current structure is too complicated and needs simplification, even if some people are worse off as a result.

Climate risk

6 see page 21

Despite present regulations only applying to Schemes with more than £5bn in assets, 33% of all schemes have already set or are in the process of setting climate targets. Half of these have included an emissions-based target, 70% of which are for 'net zero'.

2021 Pension Schemes Act

Regulatory overload

7 see pages 15/21/22

As a result of additional regulatory requirements 76% of employers say they expect more trustees will consider resigning due to the scale of the new responsibilities they are expected to take on. And 7% of schemes moved to sole trusteeship governance over the last 2 years, also evidencing the negative impact of the growing regulatory burden (amongst other drivers).

Pensions dashboards

8 see page 22

51% of scheme trustees/governing bodies say they have taken action to clean up pensions data in preparation for pension dashboards. The same narrow majority support dashboards being launched with just basic details .

TPR's DB Funding Code Consultation

9 see page 22

Employers strongly support 'Seven Key Elements' for the DB Funding Code.

Collective Defined Contribution schemes (CDC)

10 see page 23

58% of employers now say they support the CDC option being made available (up 6 points on a year ago) and 54% support its extension to allow industry-wide and multi-employer CDC schemes (up 8 points on a year ago).

2022 ACA policy recommendations for the Government

The past two years have been challenging, with the global pandemic forcing significant government action to combat the health and wider economic impacts of COVID-19. Whilst short term focus has understandably been on managing the pandemic and bolstering the economy, we believe the challenge of levelling-up has made medium and long-term planning an increasing priority.

For pensions and savings, this will bring into greater focus issues of Savings Adequacy. People of working age are not saving enough for a comfortable retirement, with our 2021 survey showing combined employer and employee contributions to DC schemes remaining stubbornly low at around 11% of earnings. The impact of the pandemic has increased the stresses on the most vulnerable in these groups and our survey found evidence that AE schemes have seen a sizeable increase in those leaving schemes compared to the pre-pandemic period.

ACA's previous research – and that of other bodies – has indicated that even for employees on median earnings, when State Pension is included, workers who contribute at the AE minimum level, might achieve a replacement ratio of around 40% of pre-retirement earnings. Whilst this may be adequate for some savers, for very many it will not be, especially if they have significant housing costs in retirement, which it appears many more will as the level of home ownership declines. Research suggests those on median earnings will need to save an average of 16% of earnings throughout their lifetime to achieve an overall income in retirement of 60% of their pre-retirement earnings (and assuming they work all the way until State Pension Age).

"The war in Ukraine coupled with the pandemic, and their impact on the economy, are likely to delay further actions needed in the pensions space"

"We believe that as the Government builds its medium-term policy response to the pandemic, it is essential that proposals form part of a wider intergenerational strategy covering all aspects of tax and savings, including pensions and social care, and that will help to protect the needs of society for generations to come."

Further, for the young generations of employees, competing savings needs (such as student loan repayments, saving for housing deposits and increased 'resilience' needs as a result of the pandemic) means it is increasingly difficult to build up retirement wealth from an early age. This means that based on current pension trends, the challenges of building up adequate savings appear likely to increase over time.

Whilst the Government has acted to boost investment into the NHS and social care, it's not yet clear how much of this will reach the social care sector and whether this will be anything like enough to address the accelerating pressures on the sector. It's interesting that this year far more of the employers responding to our survey see a longer-term role for both an AE-type scheme to fund social care and a compulsory social care insurance scheme than in previous years.

We believe that as the Government builds its medium-term policy response beyond the pandemic, it is essential that proposals form part of a wider intergenerational strategy covering all aspects of tax and savings, including pensions and social care, and that will help to protect the needs of society for generations to come.

"Minimum AE contributions should increase to 10% of total earnings by the end of the current Parliament, with a plan to increase to 12% during the next"

Within this, we continue to believe key priorities should be to:

- **incentivise adequate build-up of pension savings, which is now even more challenging at a time when many savers are understandably more focussed on short-term needs. We believe this should involve an expansion of Automatic Enrolment coverage, setting out a plan to increase minimum contributions in the years ahead and sensible reform to pensions taxation including steps to increase flexibility in the way tax-privileged savings can be used;**
- **reforming the social care system to make sure it is there when people need it, its costs are understood, and individuals are incentivised to make their own provisions; and**
- **making sure the financial and taxation reforms we pursue as a nation also sit comfortably alongside wider social reforms to enhance equity, diversity and inclusion and, importantly, changes needed to tackle our society's climate risk aspirations.**

Our key policy recommendations to meet this challenge are:

1. **A refresh of auto-enrolment (AE), including widening coverage and increasing minimum AE contribution rates during this Parliament:**

   The present 8% of qualifying earnings (which equates to closer to 4% of total earnings for those on lower incomes) is inadequate to provide for a sufficient income in later life. Our survey found that overall median contributions to DC Schemes are around 11%, but this is still significantly lower than the c30% median contribution to DB schemes, which is likely indicative of the "real cost" of providing for a comfortable retirement. However, our survey found only one in five DB schemes are now open to new employees – mostly in the public sector – with very few private sector employees benefiting from future accrual of DB pensions. It needs to be underscored that DB schemes have been the principal means by which current retirees have enjoyed reasonable retirement incomes in recent years.

   Whilst the introduction of the new NHS/Social Care tax alongside sizeable increase in the cost of living will deter Government action, we suggest minimum AE contributions should increase to 10% of total earnings by the end of the current Parliament with costs shared between employers and employees. A plan should also go further to increase the minimum to 12% during the next Parliament. A first step should be to reduce or remove the earnings threshold (which currently stops millions being signed up for AE) and AE should be adapted to include the growing number of self-employed and those engaged in the 'gig economy'.

Small and micro-employers should be helped to meet the extra costs by an increase in the Employment Allowance, reducing their annual employers' NICs. We suggest an annual "opt-down" option is included for individuals to halve contributions (to 6% overall by the end of the Parliament) to reflect economic hardships brought about by the pandemic and cost of living challenges.

2. **There is an urgent need now for increased flexibility in the way people save for retirement, for example by extending pension freedoms to younger savers (subject to appropriate safeguards and incentives) to promote both resilience and intergenerational fairness**

To provide greater incentives for higher levels of pension savings by younger employees, and support the wider AE measures we have suggested, the Government should relax current rules and implement an extension of pension freedoms allowing early access of up to a maximum of £30,000 (or 50%, if lower) of individuals' pension funds that are currently available only from age 55. This amount is consistent with the "trivial commutation" limit often applied to the return of "small" pension funds to older savers. These funds could be used to meet a short and specific list of eventualities, such as following job loss in future pandemic scenarios, or potentially to help fund house deposits.

Our survey found that over 70% of employers agreed that more flexibility would result in a net increase in individual savings. Without such reform, we believe there is a very real danger that younger savers feel that pension savings crowd out other savings needs, causing chronic under-saving and also causing the financial gulf between generations to grow to unacceptable levels.

"Over 70% of employers agree that more flexibility would result in a net increase in individual savings"

3. **Income targets and more advice and guidance needed during the accumulation phase**

We believe that retirement income targets, such as those developed by the PLSA, are helpful part of guidance during the accumulation phase. Such planning tools should also include understanding of the possible impact of inflation on spending power in retirement.

We would hope that access over time to pensions dashboards will help facilitate these and other potential forms of planning tools that enable savers to make positive decisions during accumulation and that are likely to improve outcomes.

At present, retirement savings advice is all too often focused on 'at retirement' decision making rather than the accumulation phase. If savers are to make informed decisions about the levels of contributions they need to make to target a certain income level in retirement, it is important they receive regular guidance during the accumulation phase. It is encouraging that our survey found more employers this year are providing assistance to employees in understanding retirement spending needs and a third are either organising (or will be in the near future) independent advice periodically.

4. **Action is needed on the overdue intergenerational commitment to a better social care regime**

Social care costs are expensive and often poorly understood with many people only encountering the social care system for the first time when elderly relatives require help. Relatively few people make personal provisions for future social care costs (outside of regular pension saving) and funding outcomes are often perceived as unexpected and unfair especially when significant personal contributions are required, or paid, voluntarily to secure a higher level of care.

Whilst the Government has acted in the last year to find extra taxpayers' funds to support social care and set out plans to cap the cost each individual will face if they require social care, it's not at all clear whether the longer-term costs, as the elderly increase as a percentage of the population, can or should be funded solely by the taxpayer.

We believe that a fair longer-term approach will require a range of practical and financial solutions to suit different age groups. This could include ideas such as consideration of tax reforms whereby pension income used to pay for care is tax-free, purchase of care insurance products is incentivised and/or a social insurance scheme is put in place that might help younger people better to plan ahead than the present older generations have been able. Our survey this year found increasing employer support for these ideas.

Such an approach needs to be part of the integrated savings, pensions and elderly care policy. Whatever the proposed approach, it will be important to create clarity and certainty around future taxpayer support for long-term care costs, to enable individuals to plan for the latter stages of their retirement appropriately, and at an early stage. In turn this could facilitate the demand for and development of innovative financial products to support individual planning.

5. **There is an urgent need now for significant simplification of the pension tax regime, with clear policy goals and extensive consultations to minimise unintended consequences**

The Government needs to think carefully on how any further pension tax reforms should be progressed, given the considerable sums involved (pension tax and NIC relief net of tax received on pension income totals over £42 billion) and the resulting personal financial implications for public and private sector employees (in both DB and DC schemes) of making any changes.

We strongly urge that any measures are for the long term, properly thought through, involving widespread consultations, so that best endeavours are made to smooth out the problems which have resulted from numerous tweaks made in the regime in recent years.

We accept that there are challenges especially if the policy is that changes are overall to be fiscally neutral (or revenue raising), noting that only part of the published "cost of relief" relates to future accrual. However, our survey indicated significant appetite for reform, with 89% of respondents believing the current pensions tax system is too complicated and in need of simplification even if this means some people are worse off.

6. Balancing costs between current workers' and previous workers' pensions

The Pensions Regulator's new code of practice for funding Defined Benefit (DB) schemes has been delayed with a further consultation due in the late summer of 2022. Our survey reveals employers are supportive if the eventual outcome matches the 'Seven Key Elements' outlined in our survey report (see page 22). It must deliver simplicity for small schemes and flexibility for large schemes with strong sponsors. Most importantly, it needs to balance costs of funding pensions with businesses recovering from COVID-19. If DB costs are too high, the first thing to suffer will be the amount employers can save for today's workers' pensions.

How the economic recovery from COVID-19 will take shape is far from certain. We encourage TPR to deliver a new DB funding code that has room to evolve as circumstances require. Actuaries acknowledge that DB scheme funding should gradually improve as scheme members retire. Meeting this cost too quickly will lead to systemic risks today. Meeting this cost too slowly will lead to systemic risks tomorrow. Maintaining balance has to be our collective goal.

> ***"We encourage TPR to deliver a new DB funding code that has room to evolve as circumstances require"***

7. Tackling climate risk, through the way savings are invested

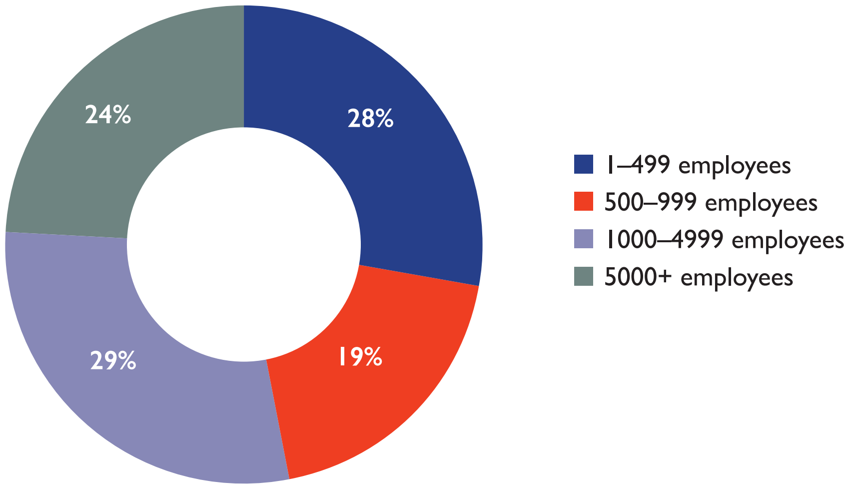
Climate risk is an existential threat to us all. The challenges exposed by COP26 to hold down global temperatures whilst, for example, maintaining shorter-term energy needs at prices consumers can afford are more than considerable.

Actuaries have a unique role to play, as professionals specialising in long-term risk, with oversight of trillions of pounds of long-term savings. We will be actively working to make climate risks transparent, enabling investors to save in the socially responsible ways they want to – our survey results show the appetite is there for action with 33% of schemes having considered setting a target to reduce their exposure to climate risks. We will work with Government to encourage policies and actions that align economic recovery with a green future.

Survey respondents: background information

Over two-thirds of the responses this year came from firms employing more than 500 employees, with over a half replying from organisations with 1,000 employees or more *(see Figure 1, below)*. **The sample does not represent a 'mirror image' of UK employers broken down by size.** If it did, over 99% of the sample would be drawn from firms with fewer than 250 employees[1]. However, it provides a good indication of trends across all types of enterprises, as it has done since the survey's inception in 1997.

Figure 1: Organisations responding to the survey by number of employees



(Source: ACA 2020 Pension trends survey, Table 1, page 25)

As we write this report, around 85% of 'eligible' private sector employees are now in workplace pension schemes[2] (with 10.6 million employees enrolled through automatic enrolment (AE)), with over 1.9 million employers having met their AE declaration of compliance requirements[3].

But pause on the figures. These Government figures could be felt to be a little misleading in that those employees 'not eligible' for AE schemes, over 10.2 million, are omitted from the above statistic as this refers to just 'eligible employees'.

Progress in extending pension coverage has clearly stalled. Those presently not enrolled into AE schemes are workers below aged 22, those on low incomes, part-timers, most gig-economy workers and those above State Retirement Age. As a result, the actual percentage of the workforce that are in workplace pension arrangements taking into account initial opt-outs, re-enrolments, later cessations[4] and the non-pensioned self-employed and 'gig economy' workers is much closer to 60% of the total workforce.

The 2017 Review of automatic enrolment proposed that those aged 18 and over fall within the 'eligible' grouping for AE, adding a further 900,000 to the potential numbers covered by the policy. But this recommendation – along with others – was not included in the *2021 Pension Schemes Act* meaning current restrictions limiting wider pension coverage remain as is.

Whilst the Pensions Minister has indicated AE coverage will be extended during this Parliament, no commitment has been forthcoming in raising minimum AE contributions despite calls for action to do this from across the pensions industry.

"Whilst huge progress has been made in extending pension coverage, this has stalled with still 14 million private sector workers remaining outside the pensions tent"

The survey also found:

- **The principal types of open pension schemes run by the employers responding to the survey are defined contribution in structure with only 20% of employers in our sample now offering an open DB arrangement to new employees (*see Figure 2, below*).**

The TPR reported in December 2021 that the number of active members in private sector DB schemes has now fallen below 1 million workers.

"In our sample, only one in five defined benefit schemes are open to new entrants. 53% are now entirely closed to future accrual"

Figure 2: Number, types and status of pension schemes provided by employers responding to survey

	Employers with scheme type	Open to new members and future accrual/ contributions	Closed to new members, open to future accrual/ contributions	Closed to new members and future accrual/ contributions
Contract-based DC scheme	47%	64%	29%	7%
Trust-based DC scheme	34%	63%	25%	12%
DC Master Trust scheme	32%	100%	–	–
Defined benefit scheme	71%	20%	27%	53%
Other multi-employer scheme	9%	68%	16%	16%
Mixed DB/DC scheme	6%	8%	23%	69%

(Source: ACA 2021 Pension trends survey, Table 2, page 25)

Pension contributions, auto-enrolment (AE) schemes and scheme changes

Our survey found:

- **Total contributions into defined contribution (DC) arrangements have increased a little on a year ago to between 11–12% of earnings (*see Figure 3, below*).**

The contribution levels into DC schemes in our sample, many set up ahead of automatic enrolment (AE) are much the same as five years ago and suggest there has been no levelling down of contributions into these types of schemes for existing employees. Indeed, there is evidence over the last four years that employers have lifted their contributions, albeit modestly, perhaps in part due to the narrowing differential between contributions being paid into schemes on behalf of longer-term employees as opposed to newer employees, many of whom have been placed, to date, in lower-cost AE schemes.

- **Median combined employer and employee contributions into DC Master Trust arrangements are now reported at 12% of total earnings, which exceeds the level required under AE rules, which is 8% of qualifying earnings between presently £6,240 and £50,270pa.**
- **Median contributions into Defined Benefit (DB) schemes increased to 29–33% of earnings (excluding deficit contributions), indicative of the 'real cost' required to generate a more comfortable retirement income.**

Higher DB contributions reflect the cost of delivering salary related pensions in the years ahead as longevity extends and in a low interest rate environment.

"Our survey sample is tilted towards larger DC schemes with generally much higher contributions than the majority of AE schemes run by smaller employers"

Figure 3: Median contribution rates as a percentage of earnings into pension arrangements provided by responding employers (by types of scheme). (Figures in brackets are 2020 figures from the ACA 2020 Pension trends survey report).

	Employer	Employee
Contract based DC	6% (5%)	5% (5%)
Trust based DC	7% (6%)	5% (5%)
DC Master Trust	7% (5%)	5% (5%)
Defined benefit (inc mixed DB/DC)	21–25% (21–25%)	8% (7%)

(Source: ACA 2021 Pension trends survey, Table 3, page 25)

Appetite for higher AE minimum contributions

We tested what employers were prepared for if the Government accepted the argument that present minimum AE contributions are insufficient to provide for adequate retirement incomes, given that further contribution increases might be possible as the economy (hopefully) recovers in the next year or so.

- **Should the Government ultimately decide to increase minimum AE contributions from, say April 2024, the median acceptable level supported by employers was a minimum total AE contribution of 12% with a minimum employee contribution of 6% of total earnings[5] (*see Figure 4, page 14*).**
- **However, smaller firms remain opposed to seeing any further increases in AE minimum contributions.**

"Larger employers see a pathway to increasing minimum AE contributions to 12% of total earnings or more"

Figure 4: Employers' views on the levels of minimum contributions they could support if the Government decided to increase minimum AE contributions from say April 2024. Median responses.

	All employers	1 – 499 employees	500 – 999 employees	1000 – 4999 employees	5000 employees +
Median view of minimum employer AE contribution	**6%** (6%)	**5%** (5%)	**6%** (5%)	**6%** (6%)	**7%** (7%)
Median view of minimum total AE contribution	**12%** (10%)	**8%** (8%)	**10%** (10%)	**12%** (12%)	**More than 12%** (12%)

(Source: ACA 2020 Pension trends survey, Table 4, page 26)

What may well compound both Government hesitancy in raising minimum AE contribution and smaller firms' opposition to any such move is the introduction of the new 1.25% NHS/Social Care tax (as well as other cost of living increases associated with the pandemic's impact).

Our survey found:

- **84% of employers thought the introduction of the new NHS/Social Care tax made it unlikely AE contributions would be increased during this Parliament (*see Table 5, page 26*)**

COVID impact on cessation rates

There has been a general welcome for the 'low' employee opt-out rates from automatic enrolment (AE) reported elsewhere to date, with a figure of 9% across all employers[6] (increasing to around 13% – 23% amongst small and micro employers[7]). Data to date provided by DWP[8] indicates that employers estimate that in the year following enrolment something like 16% of employees who have been automatically enrolled cease active membership after the initial one month opt-out period. However, around seven out of ten of those ceasing membership of a scheme are because of a move in employment[9].

"One in five firms experienced more employees leaving their AE schemes in the wake of COVID-19 – a doubling of the level prior to the pandemic"

Our survey this year found that:

- **11% of employers saw modest to significant increases in those leaving their AE scheme(s) in the year before COVID, but this increased to 20% following the COVID outbreak (*see Figure 5, page 15*).**

The data we have collected defines the current 'cessation rate' as being the total percentage of eligible employees now withdrawn from auto-enrolment (i.e. including initial opt-outs).

Cessation rates reported by employers in this sample will be due to employees moving away from their firm but are also likely to be due to either an unwillingness or inability to afford contributions due to the economic consequences of the COVID outbreak in terms of both lower pay and employment levels in firms of all sizes.

All footnotes in this Report are featured on page 24

Figure 5: Changes in AE scheme take-up over the year before and after COVID 19 outbreak. (Figures in brackets are 2020 survey results.)

	Substantial increase in cessations (above 5% of eligible) pa	Modest increase in cessations (below 5% of eligible) pa	No significant change	Increased take-up of AE pensions pa
Before COVID-19	5% (6%)	6% (12%)	84% (75%)	5% (7%)
Impact since COVID-19	9% (10%)	11% (18%)	80% (70%)	– (2%)

(Source: ACA 2021 Pension trends survey, Table 6, page 26)

We comment in this report on the need for AE policy to move ahead, with caution, to cover a wider grouping of workers, accepting that there may be a need to help smaller employers a little more given the Government's other policy commitment to raise minimum wage levels, which inevitably impacts on many smaller firms where pay levels are on average generally lower.

"Employees not eligible to be auto-enrolled total over 10.2 million with many more 'gig economy' workers excluded as well as the self-employed"

This year's survey also found that:

- **7%** of schemes moved to sole trusteeship governance over the last 2 years with many others changing their pension offering in some way over the period (*see Table 7, page 26*).
- **43%** reporting greater interest in the investment returns on their pension and **41%** expressing greater interest in investments in socially responsible environmental areas and climate. **42%** wanted more choice in retirement options available. Of more concern, **22%** also reported greater interest by members in reduced employee pension contributions and **45%** (up from 17% a year ago) more interest in removing cash from schemes (*see Table 8, page 27*).

Typical retirement ages: pace of change slows

With the ONS projecting that close to a quarter of the UK population will exceed age 65 in the next 20 years (as opposed to one in five at present), a number of reports and official statistics have pointed to a situation where more employees are working beyond the hitherto typical retirement age and the present State Pension Age (SPA) of 66. And there has also been a reported trend for retirees to return to work after age 66. Individuals' circumstances and extended healthy lifespans for some combined with a pre-COVID strong employment market are seen as contributory factors. It is too early to tell, but it will be interesting to see whether the changes in the make-up of employments in 2020/21, due to COVID, have set in motion new trends.

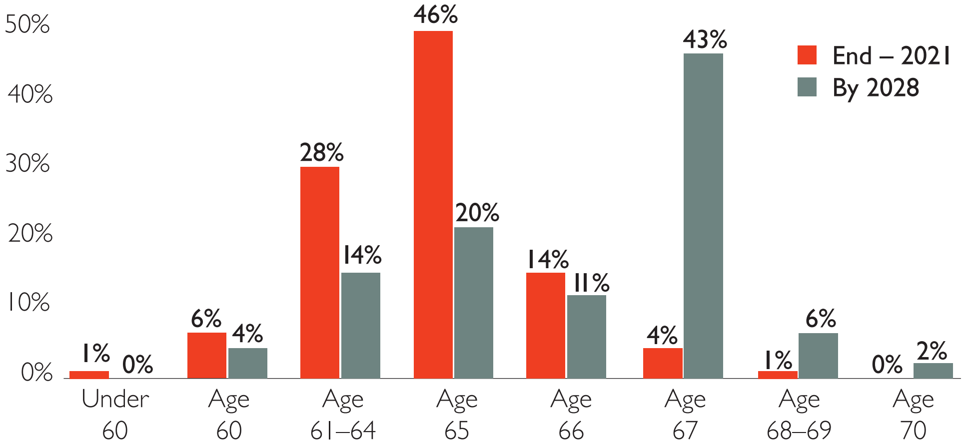
Our survey found:

- Just **5%** of employers say the typical retirement age in their firm is now above age 66, whereas two years ago the expectation by now was three times this (*see Figure 6, page 16*).

However, as the State Pension Age increases to 67 (completed by April 2028), employers expect a significant increase in the typical retirement age.

- **51%** of employers expect the typical retirement age to be above age 66 by 2028 (*see Figure 6, page 16*).

Figure 6: Typical current retirement ages now and how employers expect this to change by 2028 (when SPA reaches age 67).



(Source: ACA 2021 Pension trends survey, Table 9, page 27)

It seems likely that economic conditions driven in part by the COVID-19 pandemic have reduced the eagerness for some to retire earlier than age 66, but the survey findings suggest this trend of later retirement may be being checked following the relatively sharp increases in SPA in more recent years. It will be interesting to see in a few years' time what the trend is.

"The trend towards later retirement than SPA has slowed since the increases in SPA"

Wider savings opportunities and help for those approaching retirement

Our survey explored the degree to which employers are offering workplace savings arrangements beyond pension schemes and employers' views on whether the competing needs for younger employees, such as savings for pensions, house deposits, student debt repayments and 'rainy day' savings, might warrant new savings options.

The survey found:

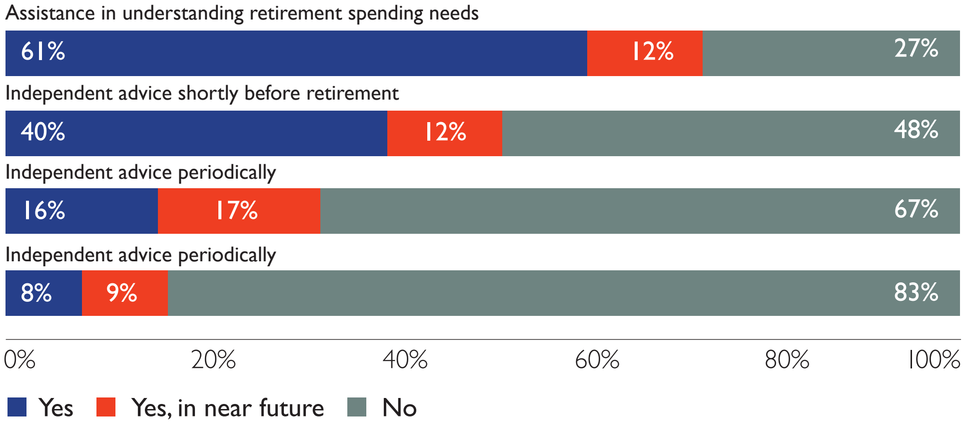
- **73%** think more flexibility would increase employee saving (up from 62% last year)
- **67%** (up from 47% a year ago) say they would consider paying an employer contribution into a more flexible savings vehicle that could be used for retirement savings and other purposes, such as house purchase, with due safeguards (*see Table 10, page 28*).

To provide greater incentives for higher levels of pension savings by younger employees, and support the wider AE measures we have suggested, the Government should relax current rules and implement an extension of pension freedoms allowing early access of up to a maximum of £30,000 (or 50%, if lower) of individuals' pension funds that are currently available only from age 55. This amount is consistent with the "trivial commutation" limit often applied to the return of "small" pension funds to older savers. These funds could be used to meet a short and specific list of eventualities, such as following job loss in future pandemic scenarios, or potentially to help fund house deposits.

Our separate findings on the extent to which employers and schemes are addressing providing guidance and independent advice to members are set out below. These suggest employers are doing more for their employees to help them understand their retirement spending needs with more offering access to independent advice shortly before retirement, but a minority offering this at earlier stages:

- **73%** provide (or plan to provide in the near future) assistance in understanding members' retirement spending needs
- **52%** provide (or plan to provide in the near future) access to independent financial advice to employees close to retirement
- An increasing number – **a third of employers** – are looking to providing independent advice periodically to members (*see Figure 7, below*).

Figure 7: Employers offering or intending to offer employees assistance in understanding their post-retirement spending needs and/or access to independent advice on their pension savings.



(Source: ACA 2021 Pension trends survey, Table 11, page 28)

Pensions taxation, GMP equalisation and Social Care

Pensions taxation

Our previous annual surveys have underscored the degree to which the present pension tax regime has been distorted by short-term tinkering over the years. It is having an impact on the economy by reducing productivity and workplace cohesion. The problems with doctors' and judges' pensions have highlighted the inadequacy of the current regime, where pension tax charges are falling on an increasing number of middle income private and public sector employees.

"The present pension tax regime has been distorted by short-term tinkering over the years. It is having an impact on the economy by reducing productivity and workplace cohesion"

The message is that there is a now an urgent need for HMT and industry practitioners to find a consensus around the best way forward. The mounting lack of understanding of the current complex regime and the adverse impact on business means that this task cannot be put off.

In summary, the findings were as follows:

- **89%** say the current structure is too complicated and needs simplification even if some people are worse off although, when it comes to spreading out the relief, only **51%** support more help for those on lower incomes if this means less relief for those on higher incomes (*see Table 12, page 28*).

In structural terms, if given limited choices in reforming the pension tax regime, employers' preference in ranked order was as follows:

Figure 8: In structural terms, if given limited choices in reforming pension tax relief, employers preference for tax relief on future savings (in ranked order)

	Rank
Fundamental change to tax relief for DC and DB savings	1
LTA for DB only and AA for DC only (with appropriate allowances rebalancing/reductions)	2
Fundamental change to tax relief for DC savings, but no DB structural change	3
Current regime continuing with tweaks, even if this has lower AA or LTA	4

(Source: ACA 2021 Pension trends survey, Table 13, page 29)

- Whilst a majority oppose pension tax relief being reduced to help cut public spending post-COVID-19, **20%** (half last year's finding) are prepared to see this happen on future savings (but not past savings) (*see Table 14, page 29*).

GMP Equalisation

Pension provision is often criticised for being overly complex. The dual record approaches to equalisation add yet more complexity, largely unfathomable to members. Using GMP conversion to equalise for GMPs both avoids that additional complexity and provides an opportunity for simplification. This has benefits for members (particularly lower earners), for employers, for the pensions industry and for government departments.

Our survey found this year that more employers and pension scheme trustees are keen to use GMP conversion than the dual record approach although many have not made a final decision. This is just one more example of the complexity highlighted elsewhere in our survey. Employers (and trustees), for example, are seeing the current pensions tax legislation as a material, illogical and disproportionate block.

Figure 9: In relation to the obligation to equalise GMPs following the Lloyds case, what method have you decided/do you think you are most likely to use (excludes totally undecided)?

	Have decided	Not decided, but current preference
A dual record type approach	18%	17%
Conversion	21%	27%
A mixture	1%	16%

(Source: ACA 2021 Pension trends survey, Table 15, page 29)

Social care

The Government has boosted taxpayer spending on meeting social care costs, but few believe this will be a sufficient response to mounting costs as the proportion of the elderly needing help in later years grows.

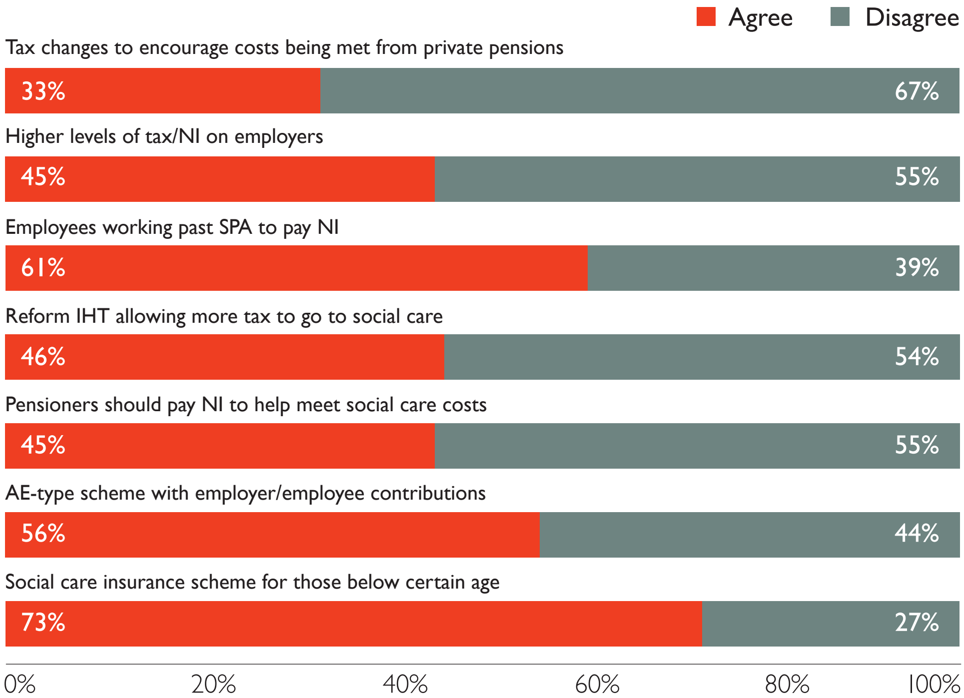
At the time of writing (and we commented the same in our last two annual surveys!), an initiative to try and identify a consensus on social care reform and/or a White paper is expected from the Government on this issue.

Our survey findings this year were:

- **33%** support tax changes to encourage social care costs to be met from private pensions (compared to 60% a year ago).
- **45%** of employers agree with higher social care costs being supported by higher levels of tax or NI by employers (finding post-dates the new tax), with **61%** supporting those working past State Pension Age paying employee NICs.
- **46%** support inheritance tax being increased to allow more tax to go towards social care (compared to 63% a year ago).
- **76%** support a new compulsory insurance scheme for the longer-term for those below a certain age to help meet future social care costs, up from 42% last year (*see Figure 10, page 20*).

"The Government's decision to boost taxpayer spending on social care may have fractured support for other reform ideas"

Figure 10: Employers' views on the following longer-term approaches to meeting social care costs.



(Source: ACA 2020 Pension trends survey, Table 16, page 29)

56% of employers support the 1.25% increase in tax on income and dividends to both support the NHS in the short-term and social care in the long-term (*see Table 17, page 30*).

Summary of Preliminary Survey Reports

In the autumn of 2021, we produced four initial survey reports on this year's 2021 findings. We summarise the findings of each report below and include a link to each report and the comment made on those findings.

Report 1; A third of pension schemes have already set targets to reduce climate risk

15 November 2021: In the first of the series of initial reports we identified an emerging division in pension scheme attitudes to climate risk.

As of July 2021, a third of pension schemes had set or are in the process of setting targets to reduce their exposure to climate related risk. But almost 3 out of 10 respondents said they do not intend to set themselves targets. Four in five schemes are looking to their asset managers to engage with the businesses they invest in on climate issues.

The survey data was collected in July ahead of COP26. At that time, the majority of respondents were already assessing the impact of climate risk on their funding and sponsors. But with 4 in 10 schemes yet to consider climate risk targets, we expect the momentum and profile of COP26 will help lead to the majority of schemes putting climate targets in place in the next few years.

"Ahead of COP26, 4 in 10 schemes had yet to consider climate risk targets"

Key findings in this initial report are:

- Of the **33%** of schemes that have set or are in the process of setting a target to reduce their exposure to climate risks, half have included an emissions-based target with the majority (**70%**) of these being a 'net zero' target. but **28%** say they will not be setting a target.
- **73%** of DB schemes have reviewed their sponsor covenant, for the potential impact of climate change. Compared to last year, this is a 9-point improvement on the number of schemes looking at the impact on their scheme sponsors.
- **78%** say they look to asset managers to engage with the companies their scheme invests in. Few schemes retain in-house resource for stewardship and engagement.
- As of July 2021, **41%** of schemes say their members are showing greater interest in ESG matters when compared to 2 years ago (*see Table 8, page 27*).

For further data see *Tables 18–22, pages 30–31*. For more comment on the findings click **HERE**

Report 2: regulatory overload heaping costs on pension schemes and deterring individuals from acting as trustees

22 November 2021: In the second report we found that the onslaught of regulatory and legislative change has three-quarters of employers expecting trustees to consider resigning. Almost 9 in 10 employers expect to struggle to find individuals prepared to become trustees. The growing regulatory burden is leading to more employers considering sole trusteeship by professional trustees.

The higher burdens have increased governance costs by over 5% in the last year alone. Despite this, political indecision on DB consolidation is hampering commercial decision-making. Industry support for DB consolidation remains strong, but it is being damaged by slow political decision making. The converse is true for DC schemes, where half of schemes are not exploring options to consolidate, despite the regulatory pressures to do so.

Preparation for pension dashboards is improving, but worryingly slow given their planned launch in 2023. Only half of schemes have begun cleaning up their data in preparation for dashboards. Half of respondents think that the first dashboards should be limited to basic information only.

"Only half of schemes have begun cleaning up their data in preparation for dashboards"

Key findings in this initial report are:

- **As a result of additional regulatory requirements 76% of employers say they expect more trustees will consider resigning due to the scale of the new responsibilities they are expected to take on. 88% say they expect more schemes will struggle to find individuals prepared to take on trustee roles.**
- **19% say they are considering sole trusteeship to simplify governance – 7% having taken this decision in the last 2 years.**
- **Over half (57%) expect governance costs to increase by over 5% per annum.**
- **Only 51% of scheme trustees/governing bodies say they have taken action to clean up pensions data in preparation for pension dashboards. The same narrow majority support dashboards being launched with just basic details.**
- **58% say the delay in progressing legislation and regulation to enable consolidation of defined benefit (DB) arrangements is hampering decision-making, with support for the concept declining by a fifth in the last 12-month. Those 'undecided' have grown to over a third, with over 69% expressing concerns about potential reputational risks.**
- **Whilst over a third of employers say they have already adopted a DC Master Trust or made DC consolidation decisions, over a half – 53% – are not exploring DC consolidation and say they are unlikely to do so.**

For further data see *Tables 23–26, pages 31– 32*. For more comment on the findings click **HERE**

Report 3: Employers spell out strong support for DB Funding Code 'wish list' in survey results

29 November 2021: In the third of the reports, we found strong support for 'Seven Key Elements' to be contained in the promised second consultation on a new DB Funding Code, expected in the next few months.

Key finding: Support for 'Seven Key Elements' for DB Funding Code

Fast Track and Bespoke framework:

- **96% want a genuinely flexible bespoke option.**
- **72% do not want to benchmark a bespoke option against fast-track.**
- **89% say it must remain clear that trustees have absolute discretion over investment decisions.**
- **78% say covenant should continue to be recognised in funding requirements, even for significantly mature schemes.**

How contributions and investment returns interact:

- **91% want to be able to allow for anticipated additional returns in recovery plans.**
- **69% say contributions should not be required to bridge the gap between technical provisions and long-term funding targets, where additional returns are anticipated.**
- **54% say it should be possible to allow for anticipated additional returns when determining future service contributions (26% undecided).**

For further data see *Table 27*, *page 33*. For more comment on the findings click **HERE**

Report 4: Widespread support for CDC grows, with more than a fifth of businesses interested in CDC for their employees

6 December 2021: In the fourth report, we found widespread support for the new Collective Defined Contribution (CDC) schemes. Over half of survey respondents support extending CDC beyond the Royal Mail scheme, to allow industry-wide and multi-employer schemes. One in five businesses are also considering CDC for their own business.

The survey findings (*see page 13*) show that contributions into 'traditional' Defined Contribution (DC) schemes have largely flat-lined at levels which fall short of providing comfortable retirement incomes. The survey also shows that Defined Benefit schemes are becoming increasingly scarce in the private sector, with 5% of respondents taking action in the last 2 years to reduce or close to accrual and a further 5% buying-out their schemes.

Against this backdrop, interest in CDC is growing, no-doubt spurred by the Royal Mail CDC scheme. Businesses seem equally interested in setting up their own CDC schemes (as an alternative to DC schemes, or a replacement for DB schemes); or introducing CDC as an enhancement to the DC Master Trusts they currently offer to employees.

Key findings in this report on CDC are:

- **58% of employers now say they support the CDC option being made available** (up 6 points on a year ago) **and 54% support its extension to allow industry-wide and multi-employer CDC schemes** (up 8 points on a year ago).
- **21%** (compared to 12% a year ago) **would consider introducing a CDC scheme into their own business, increasing to a quarter if multi-employer CDC becomes available.**
- **25% would consider a CDC Master Trust for accumulation and decumulation.**

For further data see *Table 28*, *page 33*. For more comment on the findings click **HERE**

"CDC schemes present the opportunity for employers to offer pension arrangements at a fixed cost offering more stable and potentially superior benefits to employees"

Footnotes

[1] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1019907/2021_Business_Population_Estimates_for_the_UK_and_regions_Statistical_Release.pdf, published October 2021.

[2] https://www.gov.uk/government/statistics/workplace-pension-participation-and-savings-trends-2009-to-2020/workplace-pension-participation-and-savings-trends-of-eligible-employees-2009-to-2020#:~:text=Overall%2088%25%20of%20eligible%20employees,a%20workplace%20pension%20in%202020, published by DWP, September 2021.

[3] https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/automatic-enrolment-declaration-of-compliance-report published by TPR, January 2021.

[4] Cessations are those employees who decide to leave their AE scheme after the initial one month 'opt-out' period.

[5] April 2021/22 minimum AE contributions are 8% of earnings between £6,240 and £50,270 earnings with a minimum of 3% from employers.

[6] See Employers Pension Provision Survey 2017, published by DWP, June 2018, page 70.

[7] See Automatic enrolment: Quantitative research with small and micro employers, published by DWP, June 2018, pages 48-56.

[8] See Employers Pension Provision Survey 2017, page 72.

[9] Ibid, page 76.

Statistical Appendix

ACA 2021 Pension trends survey results

The survey was conducted by the Association of Consulting Actuaries (ACA) in the summer of 2021 for online completion and was circulated to UK employers of all sizes, selected on a random basis. Responses were received from 212 employers with over 400 different types of pension arrangements – both open and closed.

Figures in (brackets) are the 2020 Pension trends survey findings, where available.

Survey respondents: background information

Table 1. Breakdown of employers responding to survey (by number of employees) (Figures in brackets are 2020 survey results.)

1–499 employees	500-999 employees	1000-4999 employees	5000 employees +
28% (40%)	**19%** (12%)	**29%** (20%)	**24%** (28%)

Table 2: Number, types and status of pension schemes provided by employers responding to the survey.

	Employers with scheme type	Open to new members and future accrual/ contributions	Closed to new members, open to future accrual/ contributions	Closed to new members and future accrual/ contributions
Contract-based DC scheme	**47%**	**64%**	**29%**	**7%**
Trust-based DC scheme	**34%**	**63%**	**25%**	**12%**
DC Master Trust scheme	**32%**	**100%**	–	–
Defined benefit scheme	**71%**	**20%**	**27%**	**53%**
Other multi-employer scheme	**9%**	**68%**	**16%**	**16%**
Mixed DB/DC scheme	**6%**	**8%**	**23%**	**69%**

Pension contributions, auto-enrolment (AE) schemes and scheme changes

Table 3. Median contribution rates into pension arrangements provided by responding employers (by types of schemes). Rates exclude any extra DB employer deficit contribution. Median responses.

	Employer	Employee
Contract based DC	**6%** (5%)	**5%** (5%)
Trust based DC	**7%** (6%)	**5%** (5%)
DC Master Trust	**7%** (5%)	**5%** (5%)
Defined benefit (inc mixed DB/DC)	**21–25%** (21–25%)	**8%** (7%)

Table 4: Employers' views on the levels of minimum contributions they could support if the Government decided to increase minimum AE contributions from say April 2024. Median responses.

	All employers	1 – 499 employees	500 – 999 employees	1000 – 4999 employees	5000 employees +
Median view of minimum employer AE contribution	**6%** (6%)	**5%** (5%)	**6%** (5%)	**6%** (6%)	**7%** (7%)
Median view of minimum total AE contribution	**12%** (10%)	**8%** (8%)	**10%** (10%)	**12%** (12%)	**More than 12%** (12%)

Table 5: Employers' views on whether the new 1.25% NHS/Social Care tax has made it unlikely that minimum Automatic Enrolment contributions will be increased in this Parliament?

Yes	No
84%	**16%**

Table 6: Annual changes in AE scheme take-up over the year before and after COVID 19.

	Substantial increase in cessations (above 5% of eligible) pa	Modest increase in cessations (below 5% of eligible) pa	No significant change	Increased take-up of AE pensions pa
Before COVID-19	**5%** (6%)	**6%** (12%)	**84%** (75%)	**5%** (7%)
Impact since COVID-19	**9%** (10%)	**11%** (18%)	**80%** (70%)	**–** (2%)

Table 7: Pension changes made by employers in the last two years.

	Percentage
Closed a DB scheme to new members	**5%** (–)
Closed a DB scheme to future accrual	**6%** (3%)
Bought out a DB scheme	**5%** (–)
Closed a trust-based DC scheme	**3%** (5%)
Closed a trust-based DC scheme and transferred benefits to other DC/Master Trust	**2%** (–)
Introduced a new Master Trust scheme	**4%** (8%)
Switched AE scheme provider	**3%** (6%)
Reduced employer DC contributions because of COVID-19 situation	**3%** (4%)
Moved to sole trusteeship governance	**7%** (–)

Table 8: Employers reporting employees showing greater interest or concern in the following areas over the last two years.

	Much more interest	More interest	No change	Less interest
Investments in socially responsible, environmental areas and climate	**5%** (6%)	**36%** (46%)	**55%** (40%)	**4%** (8%)
Level of charges	**3%** (3%)	**21%** (14%)	**76%** (83%)	**–** (–)
Reducing employee contributions	**11%** (5%)	**11%** (15%)	**74%** (76%)	**4%** (–)
Removing cash from schemes	**9%** (6%)	**36%** (11%)	**51%** (75%)	**4%** (8%)
Scheme governance issues	**2%** (–)	**10%** (5%)	**86%** (92%)	**2%** (2%)
Investment returns on their pension	**6%** (7%)	**37%** (31%)	**55%** (60%)	**2%** (2%)
Security of their pension	**7%** (13%)	**26%** (23%)	**67%** (61%)	**–** (3%)
More choice in pension investment decisions	**2%** (4%)	**30%** (12%)	**66%** (79%)	**2%** (5%)
More choice in retirement options available	**4%**	**38%**	**55%**	**3%**
Raised intergenerational fairness issue	**3%** (3%)	**6%** (8%)	**91%** (87%)	**–** (2%)
Personal pensions taxation	**9%** (4%)	**18%** (14%)	**70%** (78%)	**3%** (4%)

Table 9: Typical current retirement ages and how employers expect this to change by end-2028 (when SPA reaches age 67).

	Current	By end-2028
Under 60	**1%** (2%)	**–** (–)
Age 60	**6%** (11%)	**4%** (2%)
Age 61-64	**28%** (25%)	**14%** (16%)
Age 65	**46%** (50%)	**20%** (24%)
Age 66	**14%** (8%)	**11%** (13%)
Age 67	**4%** (2%)	**43%** (38%)
Age 68-69	**1%** (2%)	**6%** (6%)
Age 70	**–** (–)	**2%** (1%)

Wider savings opportunities and help for those approaching retirement

Table 10: Given competing savings needs for younger employees (such as savings for pensions, house deposits, student debt repayments and 'rainy day' savings) what are employers' views on the following?

	Yes
Current workplace savings options offer sufficient flexibility	**31%** (27%)
Aggregate employee savings would increase if there was greater flexibility	**73%** (62%)
If there was a more flexible savings vehicle that could be used for retirement savings and other purposes (e.g. house purchase) that received employer contributions might your business provide such a vehicle?	**67%** (47%)
A one-off single limited withdrawal at any age from a pension scheme should be considered in respect of employee contributions in excess of AE and below the trivial contribution level (of £30,000)	**37%** (40%)

Table 11: Employers offering or intending to offer employees assistance in understanding their post-retirement spending needs and/or access to independent advice on their pension savings.

	Yes	Yes, in near future	No
Assistance in understanding their retirement spending needs	**61%** (59%)	**12%** (5%)	**27%** (36%)
Independent advice shortly before retirement	**40%** (40%)	**12%** (5%)	**48%** (55%)
Independent advice periodically but not annually	**16%** (10%)	**17%** (12%)	**67%** (78%)
Independent advice annually	**8%** (12%)	**9%** (7%)	**83%** (81%)

Pensions taxation, GMP equalisation and Social Care

Table 12: There is evidence that, for higher earners, restrictions in tax relief is leading to changes in working patterns that may be bad for society adding to the cost of running schemes and damaging pension saving. What are employers' views on how to resolve this?

	Strongly Agree	Agree	Disagree	Strongly Disagree
Current structure too complicated/needs simplification even if some people are worse off	**47%** (32%)	**42%** (57%)	**6%** (7%)	**5%** (4%)
Reform should target more help for lower income groups by reducing relief for higher income groups for future savings	**26%** (23%)	**25%** (55%)	**21%** (20%)	**28%** (2%)
Prefer no change	**4%** (–)	**17%** (–)	**39%** (–)	**40%** (–)

Table 13: In structural terms, if given limited choices in reforming pension tax relief, employers preference for tax relief on future savings (in ranked order).

	Rank
Fundamental change to tax relief for DC and DB savings	**1**
LTA for DB only and AA for DC only (with appropriate allowances rebalancing/reductions)	**2**
Fundamental change to tax relief for DC savings, but no DB structural change	**3**
Current regime continuing with tweaks, even if this has lower AA or LTA	**4**

Table 14: Do you think it's reasonable to reduce tax relief for pensions in order to support the Government's spending following the financial impact of the COVID-19 crisis?

	%
Yes – for past and future savings	**6%** (2%)
Yes – for future savings	**20%** (40%)
No	**74%** (58%)

Table 15: In relation to the obligation to equalise GMPs following the Lloyds case, what method have you decided/do you think you are most likely to use (excludes totally undecided)?

	Have decided	Not decided, but current preference
A dual record type approach	**18%**	**17%**
Conversion	**21%**	**27%**
A mixture	**1%**	**16%**

Table 16: What are employers' views on the following approaches to tackling longer-term social care cost?

	Strongly Agree	Agree	Disagree	Strongly Disagree
Tax changes to be made that encourage social care costs being met from private pensions	**16%** (23%)	**17%** (37%)	**44%** (35%)	**23%** (5%)
Costs to be met by higher levels of tax or NI on employers	**3%** (4%)	**42%** (36%)	**45%** (53%)	**10%** (7%)
Employees working past SPA to pay NI to help meet social care costs	**28%** (27%)	**33%** (45%)	**23%** (25%)	**16%** (3%)
Inheritance tax to be increased to allow more tax to go towards social care	**9%** (14%)	**37%** (59%)	**35%** (14%)	**19%** (13%)
Pensioners to pay NI to help meet social care costs	**17%** (14%)	**28%** (23%)	**33%** (61%)	**22%** (2%)
Introduce an AE-type social care scheme with minimum contributions plus an opt-out option	**11%** (3%)	**45%** (41%)	**39%** (50%)	**5%** (6%)
Social care costs in old age for those below a certain age to be met by a compulsory social care insurance scheme they pay into	**6%** (3%)	**67%** (39%)	**23%** (54%)	**4%** (4%)

Table 17: What are employers' views on the 1.25% increase in tax on income and dividends to both support the NHS in the short-term and fund social care in the long-term?

Support	Not support
56%	**44%**

Statistics behind Preliminary Four Survey Reports

Report 1: Addressing climate change risks

Table 18: Which ESG factors do pension trustees/governance boards focus on most when looking at schemes' investments?

	Percentage
Environment	**14%**
Social	–
Governance	**12%**
All equally considered	**57%**
Don't presently consider ESG factors on investment decisions	**17%**

Table 19: What are employers' views on the 1.25% increase in tax on income and dividends to both support the NHS in the short-term and fund social care in the long-term?

	Percentage
We require our asset managers to engage on our behalf	**78%**
We appoint a third-party who engages with companies on our behalf	**5%**
We have an in-house resource which engages directly with companies	**4%**
Combination of above	**9%**
Other	**4%**

Table 20: Have you considered the following aspects of climate change in your scheme?

	Not at all	A little or informally	Substantial formal consideration
Sponsor covenant (DB schemes only)	**27%** (36%)	**41%** (30%)	**32%** (34%)
Overall investment strategy – asset allocation decisions	**18%** (–)	**38%** (64%)	**44%** (36%)
Fund Manager – selection and retention decisions	**18%**	**34%**	**48%**
Funding of liabilities – mortality assumptions (DB schemes only)	**40%**	**38%**	**22%**
Trustee Governance	**14%** (10%)	**42%** (35%)	**44%** (55%)
Advisors – in advice given to the trustees, where relevant	**24%**	**41%**	**35%**
Member communication	**25%** (21%)	**57%** (52%)	**18%** (27%)

Table 21: Percentage of employers producing and making publicly available TCFD reports which set out the climate risk exposures of their schemes and how trustees are managing those risks.

	Percentage
Yes, our scheme falls under the new TCFD reporting regulations so we will be producing and publishing our statements in 2022 and 2023 as required	**7%**
Yes, we are not expecting to fall under the new TCFD reporting regulations before 2024 but want to be early adopters and are looking to publish our first report in 2022 or 2023	**9%**
No, we are not looking to produce and publish a TCFD report but will be monitoring climate related metrics	**54%**
No, we are not looking at climate related risk	**30%**

Table 22: Percentage of employers setting a target to reduce schemes' exposure to climate-related risk.

	Percentage
Yes, we have set a net zero target	**9%**
We are looking to set a net zero target	**3%**
We are looking to set an emissions target but not a net zero target	**5%**
We will be setting a climate-related target but not an emissions-based target	**16%**
We will not be setting a target	**28%**
We haven't considered yet	**39%**

Report 2: Regulatory overload, dashboards and consolidation

Table 23: Employers' views: the Pension Schemes Act 2021 alongside additional regulatory requirements may add to scheme governance costs and present other challenges. Views on the following:

	Yes
We expect more lay trustees will consider resigning	**76%**
We expect to struggle to find individuals prepared to be lay trustees	**88%**
We expect more lay trustees will seek formal accreditation	**9%**
We are more likely to consider sole trusteeship to simplify governance	**19%**
Governance concerns will drive rationalisation of the pension schemes we offer	**11%**
We expect governance costs to increase by less than 5% pa	**43%**
We expect governance costs to increase by between 5 – 10% pa	**44%**
We expect governance costs will increase by over 10% pa	**13%**

Table 24: The Government, as part of the 2021 Pension Schemes Act, is supporting the idea of a pension dashboards. What are employers' views/actions on the following:

	Yes	No
Do members generally have access to inter-active websites giving them information about current savings/projected pension outcomes	**80%** (82%)	**20%** (18%)
Scheme trustees/governance body taken action to clean up pensions data in preparation for pension dashboard(s)	**51%** (45%)	**49%** (55%)
To avoid delay, should dashboards be launched initially with just basic details and, say, no fund sizes or retirement income projections	**51%** (–)	**49%** (–)
Should dashboard(s) be launched initially covering only some types of private schemes	**18%** (54%)	**82%** (46%)
Should dashboard(s) be launched initially without also including State pension benefits?	**8%** (18%)	**92%** (82%)
Employers believing employees will access a pensions dashboard at least once a year on average	**52%** (59%)	**48%** (41%)
Should there be a single dashboard	**86%** (82%)	**14%** (18%)

Table 25: Legislation would be needed to make it simpler for employers to consolidate their existing DB schemes. What are employers' views on consolidating existing DB arrangements into 'consolidation vehicles/superfunds'.

	Strongly Agree	Agree	Undecided	Disagree	Strongly Disagree
Scheme consolidation is a good thing?	**12%** (25%)	**40%** (40%)	**37%** (27%)	**7%** (5%)	**4%** (3%)
There is reputational risk for employers in passing liabilities to vehicles with lower capital requirements than insurers (and at below buy-out values)	**21%** (17%)	**48%** (51%)	**23%** (20%)	**5%** (9%)	**3%** (3%)
Consolidation decisions will be easier if schemes can make changes to simplify their benefits on the way into a commercial consolidator	**16%** (9%)	**52%** (52%)	**25%** (30%)	**5%** **(6%)**	**2%** (3%)
The delay in progressing legislation and regulation is hampering decision-making	**23%** (–)	**35%** (–)	**30%** (–)	**12%** (–)	**–** (–)

Table 26: Employers with DC schemes: DWP has consulted on the case for greater consolidation of DC schemes (e.g. into Master Trusts). Which of the following most closely aligns to employers' views?

Already adopted a Master Trust or other DC consolidation decision	**38%**
Currently do not use a Master Trust or other DC	**9%**
We are not exploring consolidation and are unlikely to do so	**53%**

Report 3: DB Scheme Funding regime

Table 27: A further consultation is anticipated shortly on a new DB scheme funding regime. Employers with DB schemes commented as follows on:

	Strongly Agree	Agree	Undecided	Disagree	Strongly Disagree
A genuinely flexible bespoke option must be available	**52%**	**44%**	**2%**	**2%**	
It should not be necessary to benchmark a bespoke option against fast-track (justifying differences)	**46%**	**26%**	**15%**	**13%**	
It should be possible to allow for anticipated additional returns in a recovery plan	**54%**	**37%**	**6%**	**3%**	
It should be possible to allow for anticipated additional returns when determining future service contributions	**31%**	**23%**	**26%**	**16%**	**4%**
It must remain clear that trustees have absolute discretion over investment decisions	**61%**	**28%**	**3%**	**8%**	
Covenant should continue to be reflected in funding requirements, even for significantly mature schemes	**52%**	**26%**	**12%**	**8%**	**2%**
Contributions should not be required to bridge the gap between technical provisions and long-term funding targets where additional returns are anticipated	**38%**	**31%**	**23%**	**8%**	

Report 4: Collective DC schemes

Table 28: The Pension Schemes Act 2021 introduces legislation enabling limited types of Collective DC schemes (CDC) and the Government has indicated that this will be extended in the near future. What is employers' views on:

	Strongly support	Support	Not sure	Disagree/ Not likely
Support this new option being available to employers	**12%** (9%)	**46%** (43%)	**38%** (41%)	**4%** (7%)
Support legislation being extended to allow industry-wide/ multi-employer CDC	**19%** (14%)	**35%** (32%)	**40%** (45%)	**6%** (9%)
Support legislation being extended to allow CDC Master Trusts – for decumulation only	**7%**	**13%**	**66%**	**14%**
Support legislation being extended to allow CDC Master Trusts – for accumulation + decumulation	**8%**	**31%**	**56%**	**5%**
My business might consider introducing a CDC scheme	**6%** (3%)	**15%** (9%)	**28%** (45%)	**51%** (43%)
My business might consider joining an industry-wide/multi-employer CDC scheme	**8%**	**18%**	**29%**	**45%**
My business might consider a CDC Master Trust – for decumulation only	**4%**	**9%**	**30%**	**57%**
My business might consider a CDC Master Trust – for accumulation + decumulation	**7%**	**18%**	**25%**	**50%**

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