

# Pension Trends Chapter 8: Pension Contributions, 2013 edition

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## Abstract

This chapter looks at contributions to private (non-state) pensions. These are: occupational schemes for private sector and public sector employees; and personal pensions, including group personal pensions and stakeholder pensions. The chapter starts by considering the level of contributions to private sector occupational pension schemes made by scheme members and their employers. This information is presented for the different types of pension scheme, Defined Benefit (DB) and Defined Contribution (DC).

## Background

The workplace pension reforms introduced in the Pensions Act 2008 started to be implemented with effect from October 2012 and are being phased in over the period to 2018. These reforms include the introduction of minimum contribution rates. More detail is given in the section **Workplace pension reforms and NEST**. The analysis published in this release relates to data collected prior to October 2012.

Contribution levels alone do not provide a measure of pension adequacy. In Defined Contribution (DC) schemes, also known as money purchase schemes, the pension is determined by the level of contributions, the investment returns received while the contributions are invested in a pension fund and, if an annuity is purchased, on the annuity market. In Defined Benefit (DB) schemes, the scheme rules determine the amount of pension that will be received in retirement, based on the accrual rate, length of service and salary (see [Pension Trends Chapter 6](#)). Contribution levels to DB schemes are set in order to attain these promised levels of benefits.

There is considerable variation in the level of contributions between schemes, and in employer and employee contributions. At one extreme, employers bear the whole cost of running the pension scheme. These schemes are called non-contributory as their members pay no contributions. At the other end of the spectrum, there are pensions where the employer makes no contribution and the full cost of pension saving is carried by the individual. Generally, these are personal pensions.

Based on average contribution rates, around three-quarters of the cost of private sector DB occupational pension schemes falls on the employer. With DC occupational pension schemes, the employee makes around one-third of total contributions.

The amount an employer contributes to a private sector DB pension scheme can vary and is usually based on actuarial estimates of the fund required to meet payments of scheme benefits (see [Pension Trends Chapter 9](#)). In the 1990s, when the strong equity market led to significant growth in fund values, some employers took contribution holidays to reduce pension fund surpluses. In contrast, the stock market decline in the early 21st century meant that some pension schemes went into deficit and employers had to make additional contributions<sup>1</sup>.

## Data sources

The various data sources used in this chapter have different coverage and characteristics. The analyses use the source that is most appropriate for the topic, but this inevitably means that there are differences in the types of pension covered and in the population base between one analysis and another. The main sources used are:

- the Office for National Statistics (ONS) Occupational Pension Schemes Survey (OPSS), for estimating numbers of active members of occupational pension schemes, weighted average contribution rates and the distribution of employee and employer contribution rates to occupational schemes;
- the ONS Annual Survey of Hours and Earnings (ASHE), for providing the distribution of employee and employer contribution rates to workplace pensions; and
- HM Revenue and Customs administrative data on the level of contributions to personal pensions.

## Notes

1. Additional contributions can be referred to in several ways and whether or not they are recorded in the various pension surveys varies. For example, the Occupational Pension Schemes Survey collects regular contribution rates, excluding fixed amount payments, but can also identify the proportions of members in schemes with fixed amount payments. In the Annual Survey of Hours and Earnings, contributions include one-off fixed amount payments from either the employee or employer, but exclude employer contributions which cover more than one employee, for example, deficit reduction payments to a scheme.

## Private sector occupational pension schemes

On average, regular contribution rates (excluding fixed amount payments) are higher for DB schemes than for DC schemes. The [2011 Occupational Pension Schemes Survey \(OPSS\)](#) found that the average total contribution rate (employee plus employer contributions) for private sector DB occupational pension schemes was 19.2%, while for DC schemes it was 9.4%.

Table 8.1 shows weighted-average contribution rates since 2000, for the years for which data are available from the OPSS. The average total (employee plus employer) contribution rate for defined benefit schemes increased over this period, from 14.0 in 2000 to a peak of 21.7 in 2009, then falling to 19.2 in 2011. The average total contribution rate for defined contribution schemes has remained

relatively flat since 2004. Caution should be used when analysing trends in average contribution rates over time as there have been several changes to the OPSS questionnaire.

**Table 8.1: Weighted-average contribution rates to private sector occupational pension schemes: by benefit structure and contributor, 2000 to 2011**

United Kingdom

Percentages

	Defined Benefit			Defined Contribution		
	Employee	Employer	Total	Employee	Employer	Total
2000	4.2	9.9	14.0	2.7	4.3	7.0
2004	4.3	14.5	18.8	2.9	6.0	8.9
2005	4.4	16.0	20.4	2.7	6.3	9.0
2006	4.7	15.0	19.7	3.0	5.9	8.9
2007	4.9	15.6	20.5	2.7	6.5	9.1
2008	4.9	16.6	21.6	3.0	6.1	9.0
2009	5.2	16.5	21.7	2.9	6.4	9.3
2010	5.1	15.8	20.8	2.7	6.2	8.9
2011	4.9	14.2	19.2	2.8	6.6	9.4

**Table source:** Office for National Statistics

**Table notes:**

1. Includes schemes where standard contributions (from either the employee or the employer) were zero.
2. Excludes normal contributions paid as fixed amounts.
3. Includes rates for open, closed and frozen schemes.
4. Excludes schemes with fewer than 12 members.
5. Caution should be used when analysing trends in average contribution rates over time as there have been several changes to the OPSS questionnaire. In particular, in 2010, the OPSS questionnaire was redeveloped to ensure that, if there were different contribution rates for different groups of members, then these were recorded. The scheme was asked to give the different rates and the corresponding proportion of active members to whom that rate applied. Prior to 2010, only the contribution rate that applied to the majority of members was recorded. This means that caution should be exercised when comparing the figures for 2010 and 2011 with earlier estimates.
6. Source: Occupational Pension Schemes Survey.

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Changes in contributions over time can also be examined by looking at the distribution of active members (or employees) across contribution rate bands. It should be noted that some of the changes in the distribution of members across contribution bands reflect underlying changes, such as the shift in membership from Defined Benefit (DB) to Defined Contribution (DC) schemes (see

[Pension Trends Chapter 6](#)). The following sections look at the distribution of employee and employer contribution rates. Further information is available in [Chapter 4 of the OPSS 2011 Annual Report](#).

### **Employee contribution rates for private sector occupational pension schemes**

This section looks at employee (or member) contribution rates for private sector DB and DC schemes with 12 or more members. In 2011, according to results from the OPSS, the average employee in a private sector DB scheme contributed 4.9% of salary. For DC schemes, the average contribution rate was 2.8%. The average contribution rate for members in private sector DB schemes, having increased from 2000 to 2009, fell in 2010 and fell again, by slightly more, in 2011. For DC schemes; there has been little change in member contribution rates (Table 8.1).

The total number of active members of private sector occupational pension schemes fell from 6.3 million in 1991 to 2.7 million in 2011. These figures exclude very small schemes (with fewer than 12 members) as data on contribution rates are less robust for such schemes and they account for only a small proportion of private sector occupational pension scheme membership, 0.1 million members in 2011. The estimates also exclude those that did not provide information on their contribution rates, around 0.1 million members in 2011.

Table 8.2 shows information from OPSS on the proportion of employees within each employee contribution rate band. For 2011, the proportion of members in the lower contribution bands (under 5%) was 22% of the total, 5 percentage points lower than in 1991. The proportion of active members in the highest contribution band increased from 22% in 1991 to 42% in 2009 but then fell to 37% in 2011.

**Table 8.2: Proportion of active members of private sector occupational pension schemes: by employee contribution rates, 1991 to 2011**

United Kingdom

	Percentages				
	Under 3%	3% to under 5%	5% to under 6%	6% and over	Non-contributory or other basis
1991	5	22	30	22	22
1995	10	27	30	14	19
2000	10	20	33	22	16
2004	7	21	19	32	21
2005	7	18	21	32	22
2006	7	20	20	38	15
2007	7	19	17	39	18
2008	6	24	14	40	16
2009	6	23	13	42	16
2010	6	16	18	39	21
2011	6	15	21	37	20

**Table source:** Office for National Statistics**Table notes:**

1. Excludes schemes with fewer than 12 members and non-respondents.
2. Due to changes in the definition of the private and public sectors, estimates for 2000 and onwards differ from earlier years. From 2000, organisations such as the Post Office and the BBC were reclassified from the public to the private sector.
3. Changes to methodology for 2006 onwards mean that comparisons with 2005 and earlier should be treated with caution.
4. 'Other basis' means contributions made other than as a percentage of salary. For 2007, 2008 and 2009, 'other basis' includes members of defined benefit schemes with normal contributions paid as fixed amounts only. If contributions were made both as a percentage of earnings and as fixed amount payments, membership is included in the percentage contribution rows.
5. In 2010, the OPSS questionnaire was redeveloped to ensure that if there were different contribution rates for different groups of members, then these were recorded. The scheme was asked to give the different rates and the corresponding proportion of active members to whom that rate applied. Prior to 2010, only the contribution rate that applied to the majority of members was recorded. This means that caution should be exercised when comparing the figures for 2010 and 2011 with earlier estimates.
6. Numbers of active members in each category for 1975 to 2011 are provided in the download file.
7. Source: Occupational Pension Schemes Survey.

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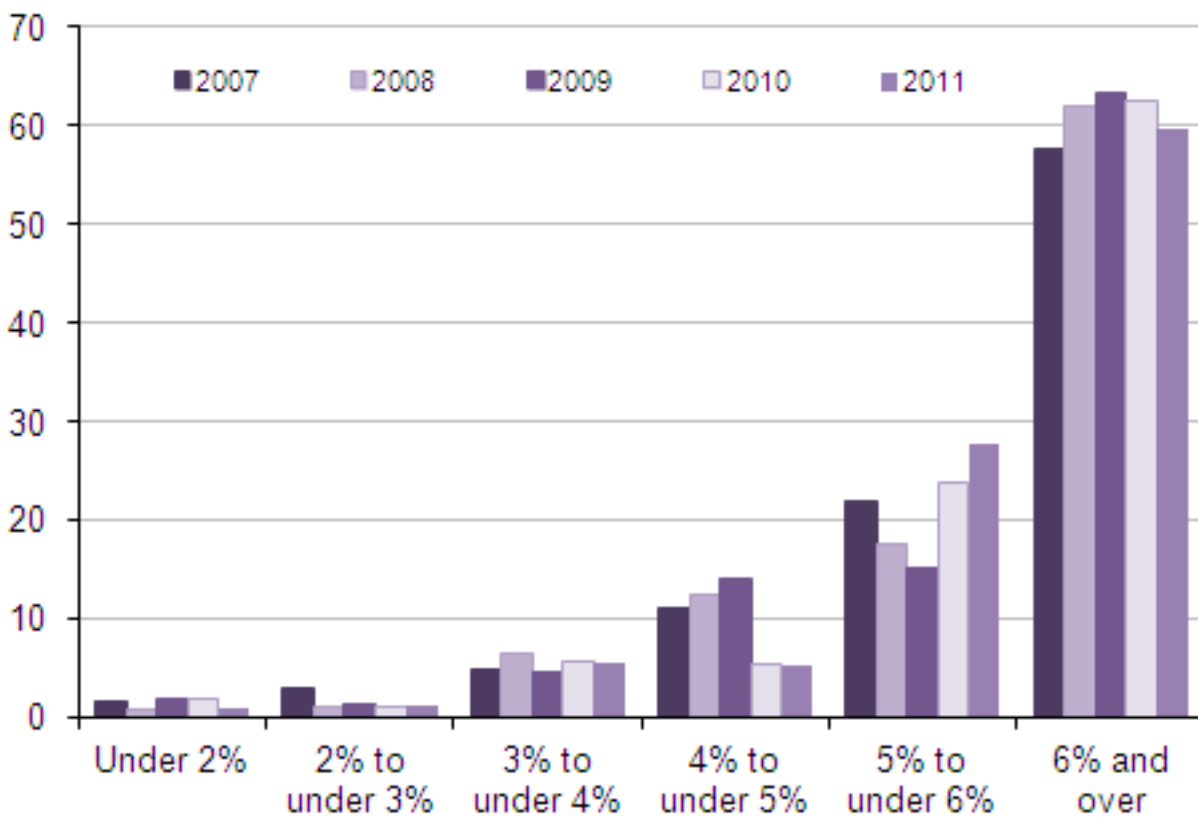
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Figure 8.3 shows the breakdown of DB and DC employee contribution rates by bands for 2007 to 2011. For DB schemes the most common rate for employee contributions was '6% and over'. This band represented almost 60% of active members in 2011. Although contribution rates were lower for DC schemes, between 2007 and 2011 there was a shift towards higher employee contribution rates for members of DC schemes. In 2007, 56% of active members of DC schemes had contribution rates in the lower-middle bands (2-3% and 3-4%) while 8% were in the 6% and over band. In 2011, 43% of active members of DC schemes were in the lower-middle bands and 14% were contributing at 6% or over. The proportions of active members in the '6%-7%' and '7% and over' bands are available in the download file for Figure 8.3.

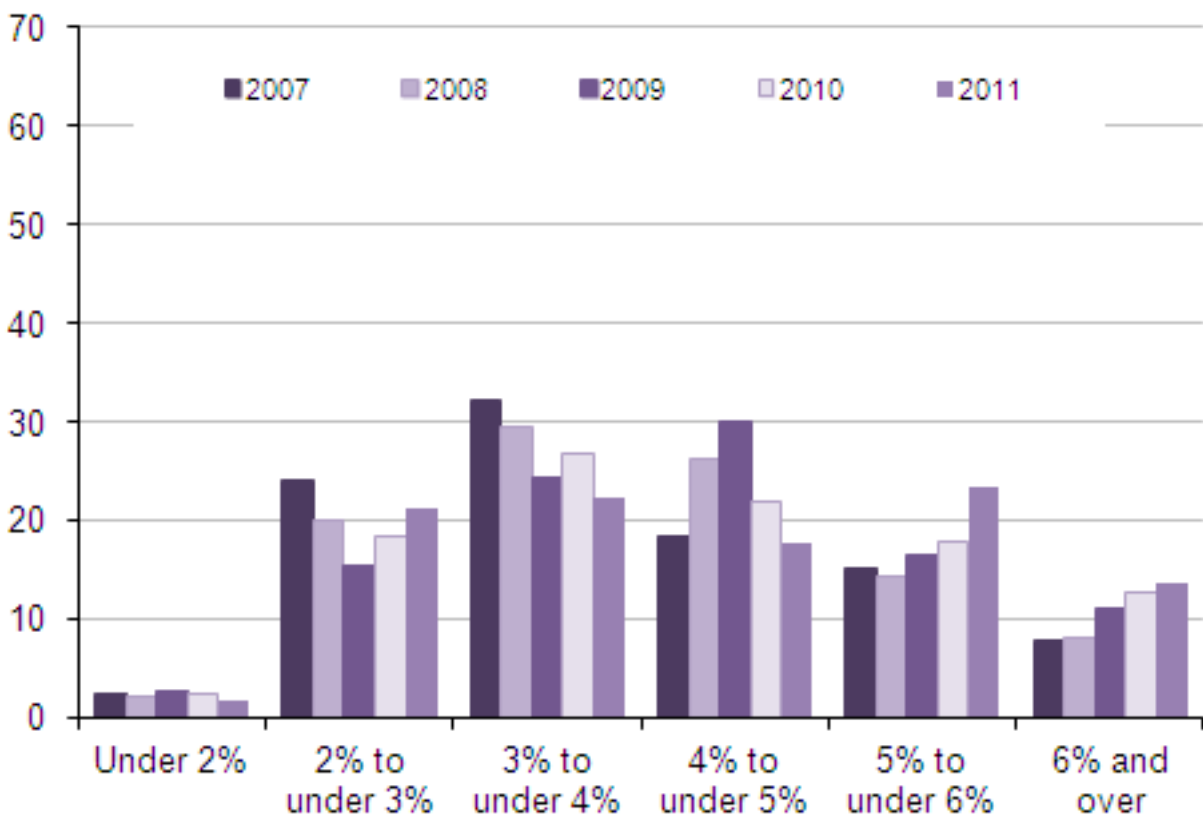
**Figure 8.3: Distribution of active membership of private sector occupational pension schemes: by type of scheme and employee contribution rate, 2007 to 2011**

United Kingdom, percentages

**Defined Benefit Employee Contribution Rates**



**Defined Contribution Employee Contribution Rates**



Source: Occupational Pension Scheme Survey (OPSS) - Office for National Statistics

#### Notes:

1. Excludes schemes with fewer than 12 members.
2. Excludes non-contributory arrangements and contributions paid as fixed amounts only.
3. Percentages are calculated excluding non-response.
4. Caution should be used when analysing trends in contribution rates over time as there have been several changes to the OPSS questionnaire. In particular, in 2010, the OPSS questionnaire was redeveloped to ensure that, if there were different contribution rates for different groups of members, then these were recorded. The scheme was asked to give the different rates and the corresponding proportion of active members to whom that rate applied. Prior to 2010, only the contribution rate that applied to the majority of members was recorded. This means that caution should be exercised when comparing the figures for 2010 and 2011 with earlier estimates.
5. The proportions of active members in the '6%-7%' and '7% and over' bands are available in the download file.

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### Employer contribution rates for private sector occupational pension schemes

In this section, we look at employers' regular contribution rates (excluding additional contributions paid as fixed amounts) for occupational pension schemes with 12 or more members, using results from OPSS. Additional contributions can be substantial where employers are correcting deficits in DB schemes. It should also be noted that employer contributions may be affected by salary sacrifice arrangements, where member contributions are made by the employer with the member accepting a lower rate of pay. Where such arrangements exist, the member and employer both benefit from lower National Insurance payments.

There is a marked difference between employer contribution rates in DB and DC pension schemes. In 2011, the average employer contribution rate for private sector DB occupational pension schemes was 14.2% of salary. This compares with an average contribution rate of 6.6% for DC schemes (see Table 8.1). Part of the difference between contribution rates in DB and DC schemes is attributable to the different characteristics of the schemes and their members:

- Most DB occupational pension schemes are contracted out<sup>1</sup> of the additional state pension. The Pensions Act 2007 abolished the option for DC pensions to contract out with effect from April 2012, even though, prior to 2012, most DC occupational schemes were not contracted out (see **Contracting out of occupational pension schemes** and Table 8.5). Employers contributing to schemes that are not contracted out pay higher National Insurance contributions that will deliver benefits in the form of additional state pension for their employees.
- Most DC schemes are not as long established as DB schemes (see [Pension Trends Chapter 6](#)).

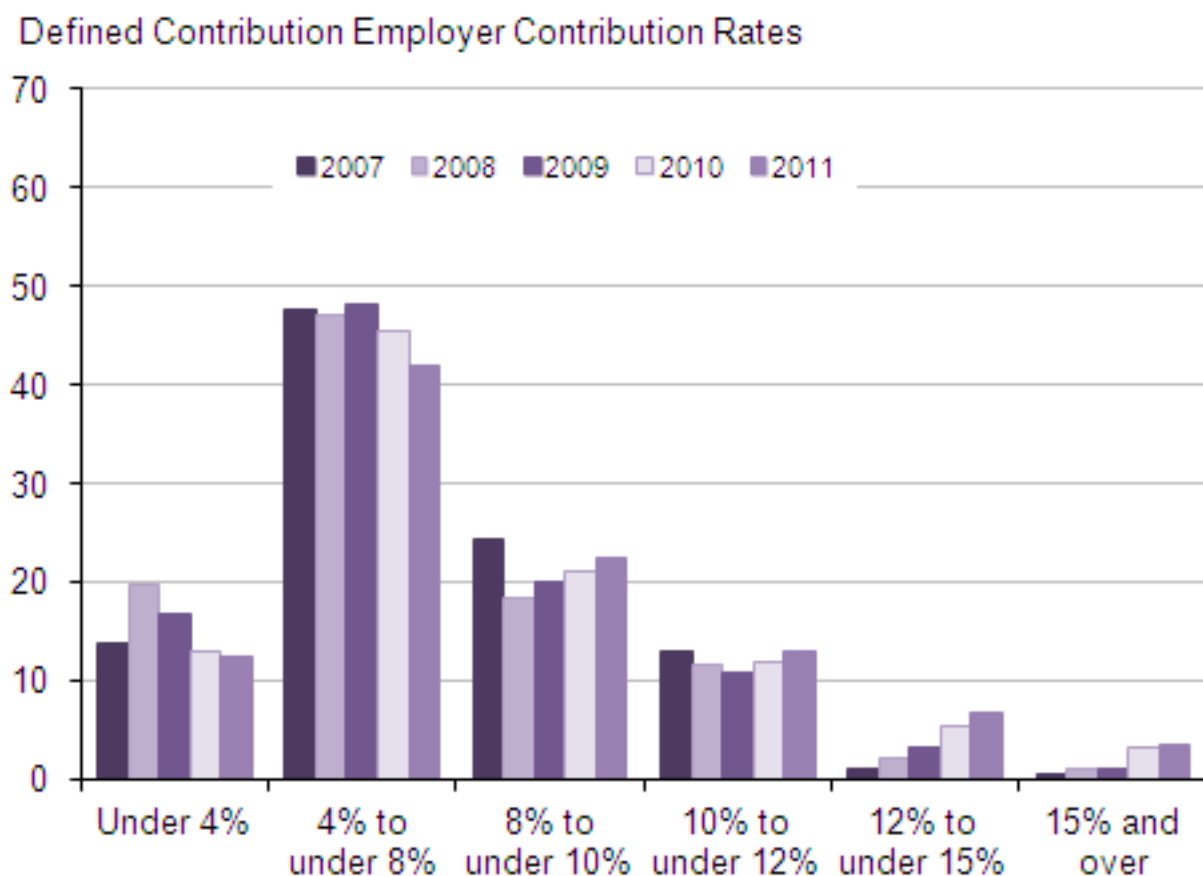
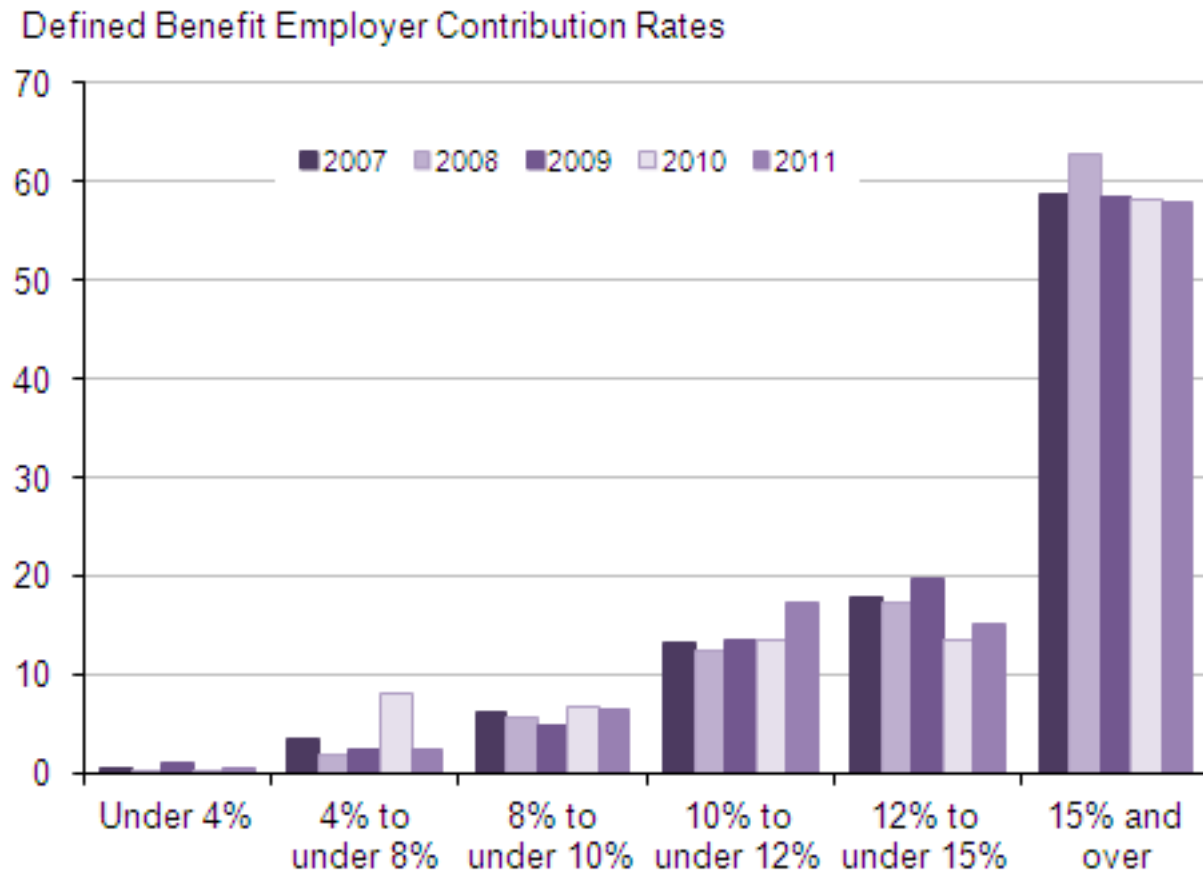
The distribution of active membership by level of employer contributions is shown in Figure 8.4. 73% of active members of private sector DB schemes had employer contributions of 12% of salary or more in 2011. The proportion with employer contribution rates of '15% and over' was just under 60% between 2009 and 2011. In contrast, only 3% of active members of DC schemes were in the '15% and over' employer contribution rate band in 2011. However, as with employee contributions, there



is some evidence of a rise in employer contribution rates to DC schemes. The proportion of active members receiving employer contributions of 12% of salary or more rose from under 2% in 2007 to over 10% in 2011.

**Figure 8.4: Distribution of active membership of private sector occupational pension schemes: by type of scheme and employer contribution rate, 2007 to 2011**

United Kingdom, percentages



## Source: Occupational Pension Scheme Survey (OPSS) - Office for National Statistics

### Notes:

1. Excludes schemes with fewer than 12 members.
2. Excludes non-contributory arrangements and contributions paid as fixed amounts only.
3. Percentages are calculated excluding non-response.
4. Caution should be used when analysing trends in average contribution rates over time as there have been several changes to the OPSS questionnaire. In particular, in 2010, the OPSS questionnaire was redeveloped to ensure that, if there were different contribution rates for different groups of members, then these were recorded. The scheme was asked to give the different rates and the corresponding proportion of active members to whom that rate applied. Prior to 2010, only the contribution rate that applied to the majority of members was recorded. This means that caution should be exercised when comparing the figures for 2010 and 2011 with earlier estimates.

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### Contracting out of occupational pension schemes

The Pensions Act 2007 abolished the option for DC pensions to contract out from April 2012. Contracting out for DB schemes will also end with the planned introduction of the [single-tier pension](#). In 2011, the latest available data from OPSS, 86% of active contributing members (1.7 million) of private sector DB schemes belonged to contracted out schemes, while only 17% of active contributing members (0.1 million) of DC schemes were in contracted out schemes.

**Table 8.5: Active members of private sector occupational pension schemes: by employer contribution rate, type of scheme and contracting out status, 2011**

United Kingdom

Millions

	Defined Benefit		Defined Contribution	
	Contracted out	Not contracted out	Contracted out	Not contracted out
<b>Contributions as % of salary</b>				
Under 8%	0.0	0.0	0.1	0.4
8% to under 12%	0.3	0.1	0.1	0.2
12% to under 15%	0.1	0.1	0.0	0.0
15% and over	0.9	0.0	0.0	0.0
<b>Non-contributory or other basis</b>	0.2	0.0	0.0	0.1
<b>Total</b>	1.7	0.3	0.1	0.7

**Table source:** Office for National Statistics

**Table notes:**

1. Excludes schemes with fewer than 12 members and non respondents (less than 0.2 million active members).
2. 'Other basis' means contributions made other than as a percentage of salary. It includes members of schemes with normal contributions paid as fixed amounts only; if contributions were made both as a percentage of earnings and as fixed amount payments, membership is included in the percentage contribution rows.
3. Prior to the Pensions Act 2007 changes, which ended contracting out for defined contribution pensions.
4. Source: Occupational Pension Schemes Survey.

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In theory, the relatively low employer contribution rates of DC schemes might be explained by the dominance of schemes which are not contracted out, as members of such schemes benefit from contributions made by their employers to the additional state pension, as well as their contributions to the occupational pension. If this were the case, contracted out DC schemes should have employer contribution rates similar to those of (contracted out) DB schemes, while DC schemes which are not contracted out would have lower employer contribution rates.

Historically, the data has shown that, to some extent, this is the case<sup>2</sup>. However, the 'not contracted out' status of the majority of DC schemes (see Table 8.5) does not fully explain their lower employer contribution rates. In not contracted out DC schemes, 51% of active members received employer contributions of less than 8% in 2011. This contrasted with contracted out DB schemes, where 82% of active members received 8% and over and 55% received 15% and over.

On average, OPSS estimates that the employer contribution rate for not contracted out DC schemes in 2011 was 6.5%, compared with 7.4% for contracted out DC schemes and 14.7% for contracted out DB schemes. For not contracted out DB schemes, the rate was 11.2%.

**Workplace pension reforms and NEST**

Under the Pensions Act 2008, a system has been introduced with effect from October 2012 under which employers have a duty automatically to enrol all eligible employees into a qualifying pension. Employers can introduce new occupational schemes or personal pension arrangements, or adapt existing provision. Employers who intend to use their existing schemes for auto-enrolment can use certification to show that their schemes meet the minimum requirements set out by the legislation and explained in the ['Preparing for auto-enrolment' guidance from the Pension Regulator \(TPR\)](#).

Minimum contribution levels are being phased in over the period to 2018. The minimum contribution levels vary depending upon the scheme's definition of pensionable pay (see the 'Certification' section in the [TPR guidance for pension schemes under the new employer duties](#)). In the case of a scheme where pensionable pay is equal to qualifying earnings (explained in paragraph 50 of the TPR guidance), the minimum level of contributions are as follows (expressed as a proportion of the jobholder's qualifying earnings):

- between October 2012 and September 2017 DC schemes or personal pensions must have contributions of at least 2%, with at least 1% coming from the employer
- between October 2017 to September 2018 the minimum contribution will be 5%, with at least 2% coming from the employer, and
- from October 2018 it will be 8%, with at least 3% coming from the employer.

The Pensions Act 2008 made provision for the creation of a new DC occupational pension scheme, the [National Employment Savings Trust \(NEST\)](#). NEST meets the qualifying scheme standards and is available to those without a scheme. It is not contracted out of the additional state pension, in line with the legislation abolishing contracting out for DC schemes which came into effect in April 2012.

There has been much discussion about how the Pensions Act 2008 will impact on existing pension provision. The reforms are designed to expand coverage of pensions to more people of working age. In July 2012, the Department for Work and Pensions published '[Workplace pension reforms: baseline evaluation report](#)'. Chapter 4 deals with 'increasing the amount of savings' and looks at contributions. Along with other topics, it discusses the concern that employers may reduce the contributions that they currently pay into pension schemes because they are obliged to contribute only the minimum amounts. This is referred to as 'levelling down'. This could also occur because employers may now need to contribute to a wider range of employees, increasing their costs if contribution rates remain unchanged. However, Chapter 4 of the evaluation report quotes data from the [Employer Pension Provision Survey](#) on how employers intend to deal with the reforms and notes, for example, that over 90% of employers who made contributions of 3% or more in 2011 said they would not change their scheme or reduce contribution levels for existing members.

In coming years, during and after the introduction of the Pensions Act 2008 reforms, it will be interesting to note any changes in contribution patterns. However, it should be noted that trends are likely to be influenced not only by pension reform but also by changes in the economic environment.

In the remainder of this section, and in the section on group personal pensions, we use data from the Annual Survey of Hours and Earnings (ASHE). ASHE is a good source of data on contribution patterns because it collects information at individual level, by contrast with the OPSS, which collects information at scheme level. However, it should be noted that it is not possible to compare average contribution rates from ASHE with those from OPSS. This is because ASHE includes small numbers of individuals making large additional contributions (see Note 1 under **Background**), while the OPSS figures are based on regular contributions made as a percentage of salary only.

For 2012, ASHE respondents provided information in respect of the pay period that included 18 April. The returned data did not reflect the eventual impact of the Pensions Act 2007 change to DC contracting out (see **Contracting out of occupational pension schemes**). That is, results showed roughly the same proportion of employees in the contracted out DC category in 2012 as in 2011. This may be because respondents had only limited time to acclimatise to the change to contracting out when required to complete the ASHE questionnaire, or that the scheme moved to 'not contracted out' status during the pay period. Further information is available in the contracting out information published in the [zip files alongside the 2012 ASHE pension tables \(51 Kb ZIP\)](#).

The rest of this section looks at total contribution rates by various factors such as age, sex, occupation and earnings. As above, the analysis considers DC occupational pension schemes. We

have assumed that the contribution amounts reported in the 2012 ASHE do not reflect the changes to contracting out and have, therefore, focussed the analysis on 'not contracted out' DC schemes. The [ASHE 2012 pension tables](#), in particular tables P6 to P12, show the proportion of employees by employee and employer contribution rate bands for the other pension types.

Table 8.6 shows the distribution of employee members of private sector 'not contracted out' DC schemes by total (employer + employee) contribution rates for each year between 2006 and 2012. The estimates show a shift to higher total contribution rates. For example, in 2006, 40% of members were in receipt of contributions of less than 8% with 30% in receipt of contributions of 12% or more. By 2012, 25% of members were receiving less than 8% and over 44% were receiving contributions of 12% or more.

**Table 8.6: Distribution of employee members of private sector defined contribution occupational pension schemes not contracted out of the additional state pension: by total (employee and employer) contribution rates, 2006 to 2012**

United Kingdom

	Percentages						
	Greater than zero and under 4%	4% to under 8%	8% to under 12%	12% to under 16%	16% to under 20%	20% to under 24%	24% and over
2006	8	32	30	16	6	3	5
2007	5	27	34	18	7	4	5
2008	5	27	34	18	7	4	5
2009	6	26	32	19	8	5	4
2010	5	23	33	20	8	4	6
2011	5	21	31	21	10	5	6
2012	5	20	31	23	10	6	6

**Table source:** Office for National Statistics

**Table notes:**

1. Pension is arranged through an employer. Main pension only.
2. Employee plus employer contributions: at least one is greater than zero.
3. Contributions include one-off fixed amount payments, but exclude employer contributions covering more than one employee and Additional Voluntary Contributions (AVCs) by employees.
4. The private sector is classified using the legal status from the Inter-Departmental Business Register and does not include 'third sector' organisations such as charities.
5. Source: Annual Survey of Hours and Earnings.

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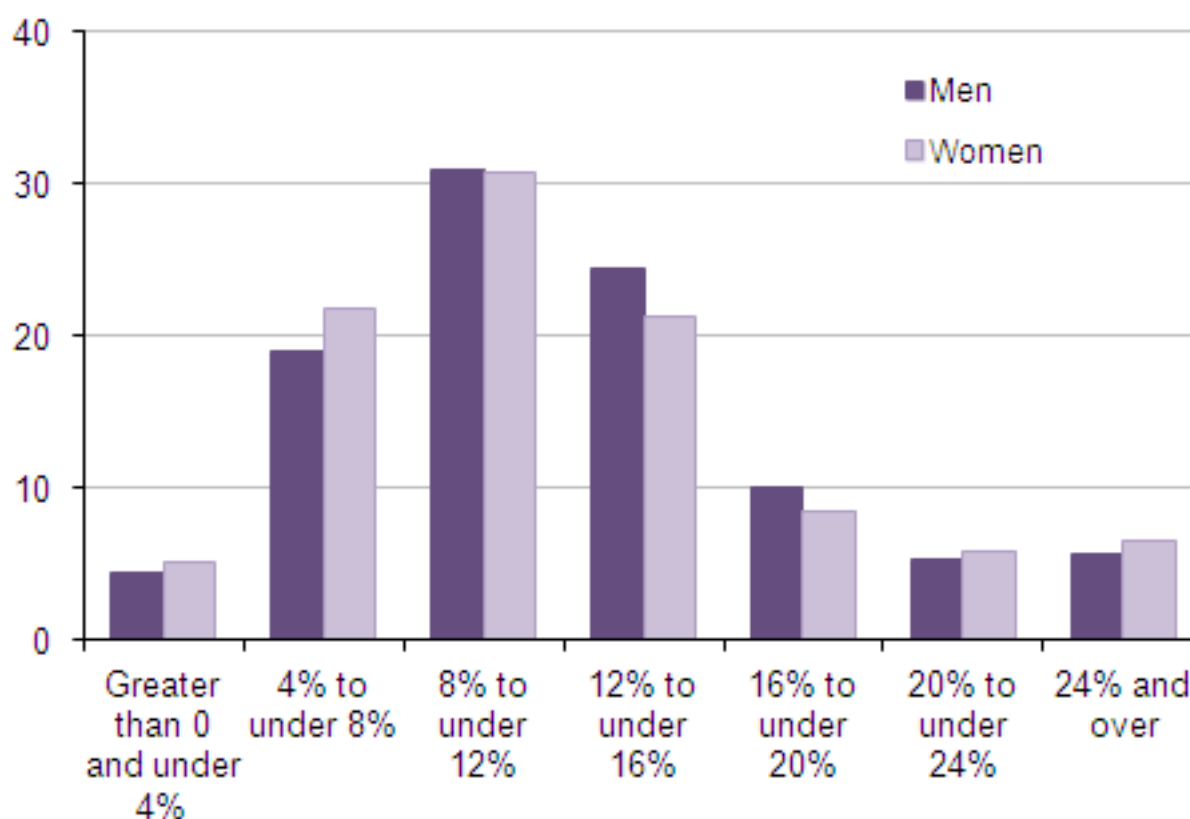
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Figure 8.7 shows modest differences in total contribution rates between male and female employees in DC occupational pension schemes not contracted out of the additional state pension. In 2012, as in most previous years, the most common contribution rate band for men and women was '8% to under 12%' of earnings. A higher proportion of women contributed at the lower contribution rates, with 27% of women compared with 24% of men contributing under 8%. There are various factors which could explain these differences such as different employment patterns, the distribution of earnings and the age of the employee.

**Figure 8.7: Distribution of employee members of private sector defined contribution occupational pension schemes not contracted out of the additional state pension: by sex and total (employee and employer) contribution rates, 2005 to 2012**

United Kingdom, percentages



Source: Annual Survey of Hours and Earnings (ASHE) - Office for National Statistics

**Notes:**

1. Pension is arranged through an employer. Main pension only.
2. Employee plus employer contributions: at least one is greater than zero.
3. Contributions include one-off fixed amount payments, but exclude employer contributions covering more than one employee and Additional Voluntary Contributions (AVCs) by employees.
4. Data for 2005 to 2011 is available in the download file.
5. The private sector is classified using the legal status from the Inter-Departmental Business Register and does not include 'third sector' organisations such as charities.

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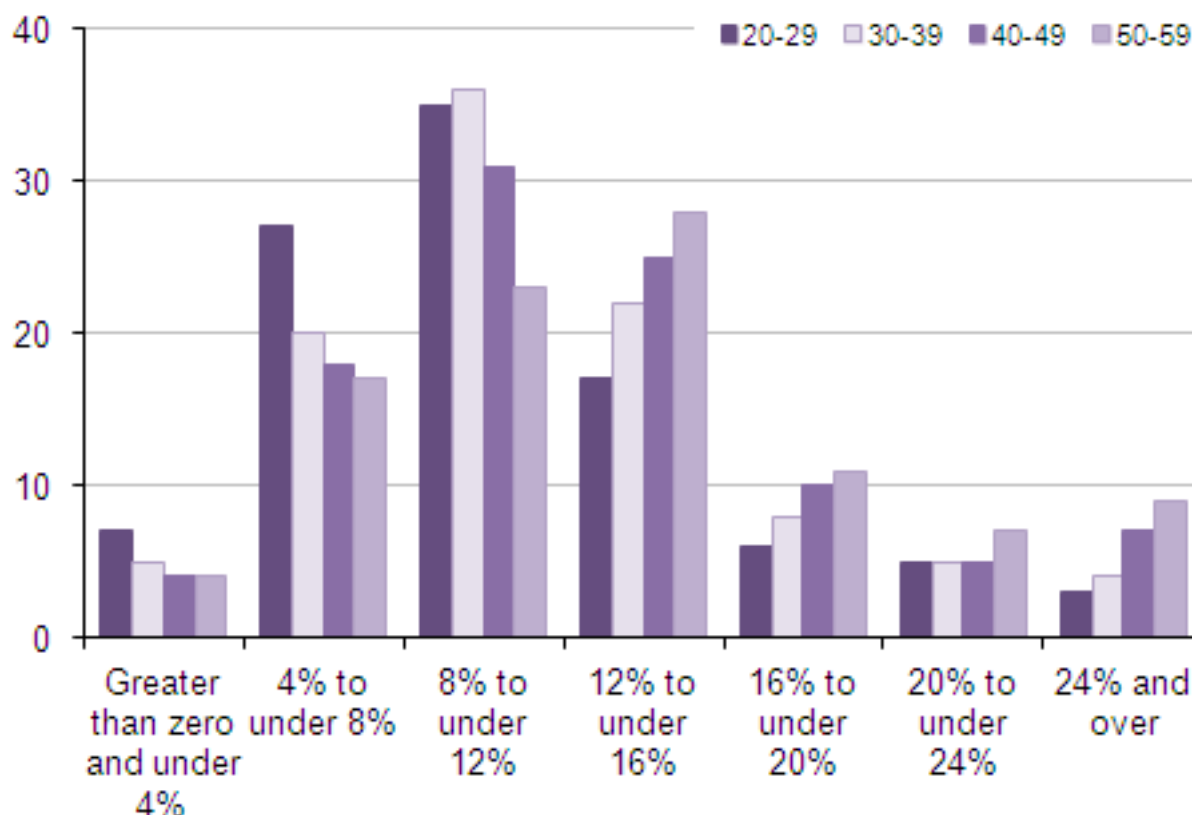
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As employees approach retirement they may wish to increase their pension contributions to try and improve their retirement benefits, if this option is offered as part of the scheme rules<sup>3</sup>. If members increase contributions as they approach retirement we would expect to see a relatively high proportion of older members in the higher contribution bands. Figure 8.8 shows some evidence of this for DC schemes not contracted out of the additional state pension in 2012. The older age groups represent a greater proportion than the younger ones in most of the higher contribution bands (16% and over); and the younger age groups represent a greater proportion than the older ones in the lower contribution bands, in particular the 4-8% band. This may be because older employees who are nearing retirement are more likely than younger employees to make additional contributions. The contribution rates reported for different age bands might reflect a 'cohort effect' rather than, or as well as, contribution patterns over individual lifetimes. In other words, they may show that many older workers benefited from higher total contribution rates over their working lives because they joined their pension schemes earlier, when regular contribution rates might have been higher. We cannot establish whether such an effect exists, as data on contribution rates are not available before 2005.



**Figure 8.8: Distribution of employee members of private sector defined contribution occupational pension schemes not contracted out of the additional state pension: by age and total (employee and employer) contribution rates, 2012**

United Kingdom, percentages



Source: Annual Survey of Hours and Earnings (ASHE) - Office for National Statistics

**Notes:**

1. Pension is arranged through an employer. Main pension only.
2. Employee plus employer contributions, at least one is greater than zero.
3. Contributions include one-off fixed amount payments, but exclude employer contributions covering more than one employee and Additional Voluntary Contributions (AVCs) by employees.
4. The private sector is classified using the legal status from the Inter-Departmental Business Register and does not include 'third sector' organisations such as charities.
5. Estimates for the '60+' age group are included in the download file.

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The impact of people's occupations on contribution rates is shown in Table 8.9, which shows the distribution of members of DC occupational pension schemes that are not contracted out of

the additional state pension, classified by [Standard Occupational Classification](#) and their total contribution rates.

In 2012, employees in sales and customer service had the lowest contribution rates: 52% of scheme members in this occupational category had total contributions of less than 8% of earnings, compared with 25% for all occupations (Tables 8.9 and 8.6 respectively). Managers and senior officials had the most generous total contribution rates: 28% had total contributions of 16% or more in 2012, and only 16% had total contributions of less than 8%.

**Table 8.9: Distribution of employee members of private sector defined contribution occupational pension schemes not contracted out of the additional state pension: by occupation (SOC 2010) and total (employee and employer) contribution rates, 2012**

United Kingdom

	Percentages						
	Greater than zero and under 4%	4% to under 8%	8% to under 12%	12% to under 16%	16% to under 20%	20% to under 24%	24% and over
Managers, directors and senior officials	2	13	31	25	11	7	10
Professional	3	17	34	26	9	5	6
Associate professional and technical	2	18	30	26	11	7	7
Administrative and secretarial	5	19	35	18	9	7	8
Skilled trades	8	21	34	21	9	x	x
Caring, leisure and other service	x	x	23	40	x	x	x
Sales and customer service	12	39	23	12	7	x	x
Process, plant and machine operatives	8	26	28	26	8	x	x
Elementary	8	29	29	22	7	x	x

**Table source:** Office for National Statistics

**Table notes:**

1. Pension is arranged through an employer. Main pension only.
2. Employee plus employer contributions: at least one is greater than zero.
3. Contributions include one-off fixed amount payments, but exclude employer contributions covering more than one employee and Additional Voluntary Contributions (AVCs) by employees.

4. x indicates that cells have been suppressed on quality grounds: coefficient of variation (CV) greater than 20. The quality of an estimate is measured by its CV, which is the ratio of the standard error of an estimate to the estimate. Other cells may also have been suppressed to prevent the value being calculated from the rest of the table (secondary suppression).
5. The private sector is classified using the legal status from the Inter-Departmental Business Register and does not include 'third sector' organisations such as charities.
6. Source: Annual Survey of Hours and Earnings.

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The impact of different earnings levels is shown in Table 8.10. As in previous years, in 2012 employees with higher earnings tended to have higher total pension contribution rates. Just over half of employees earning over £600 per week had total contribution rates of 12% of earnings or more. By contrast, around two-thirds of employees earning under £200 per week had rates of less than 12% of earnings.

**Table 8.10: Distribution of employee members of private sector defined contribution occupational pension schemes not contracted out of the additional state pension: by gross weekly earnings and total (employee and employer) contribution rates, 2012**

United Kingdom

	Percentages						
	Greater than 0 and under 4%	4 to under 8%	8 to under 12%	12 to under 16%	16 to under 20%	20 to under 24%	24% and over
Under £200	10	39	18	12	9	x	x
£200 to under £300	10	32	27	12	5	5	7
£300 to under £400	8	25	33	20	6	5	3
£400 to under £500	6	25	31	20	8	5	4
£500 to under £600	4	21	33	24	9	5	4
Over £600	3	14	32	27	11	6	7

**Table source:** Office for National Statistics

### Table notes:

1. Pension is arranged through an employer. Main pension only.
2. Employee plus employer contributions: at least one is greater than zero.

3. Contributions include one-off fixed amount payments, but exclude employer contributions covering more than one employee and Additional Voluntary Contributions (AVCs) by employees.
4. x indicates that cells have been suppressed on quality grounds: coefficient of variation (CV) greater than 20. The quality of an estimate is measured by its CV, which is the ratio of the standard error of an estimate to the estimate. Other cells may also have been suppressed to prevent the value being calculated from the rest of the table (secondary suppression).
5. The private sector is classified using the legal status from the Inter-Departmental Business Register and does not include 'third sector' organisations such as charities.
6. Source: Annual Survey of Hours and Earnings.

### Download table

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### Notes

1. Contracting out refers to a statutory arrangement under which pension schemes that meet certain conditions may contract out of the State Second Pension (S2P), formerly the State Earnings-Related Pension Scheme (SERPS). The members' and employers' National Insurance Contributions are reduced or partially rebated. Members of a contracted out pension scheme obtain rights in the pension scheme in place of rights to an additional state pension.
2. In 2011, there were only 0.1 million active members of 'not contracted out' DC schemes. This relatively small figure makes it difficult to compare the proportions in each contribution band with the distribution of active members in contracted out DB schemes. The download file for Table 8.5 gives the historical data.
3. In 2011, OPSS asked the larger defined contribution schemes (those with 12 or more members) the question "Are the normal contributions to the scheme made at variable rates that depend on the member's age?" One-fifth of active members were in schemes that said yes.

### Public sector occupational pension schemes

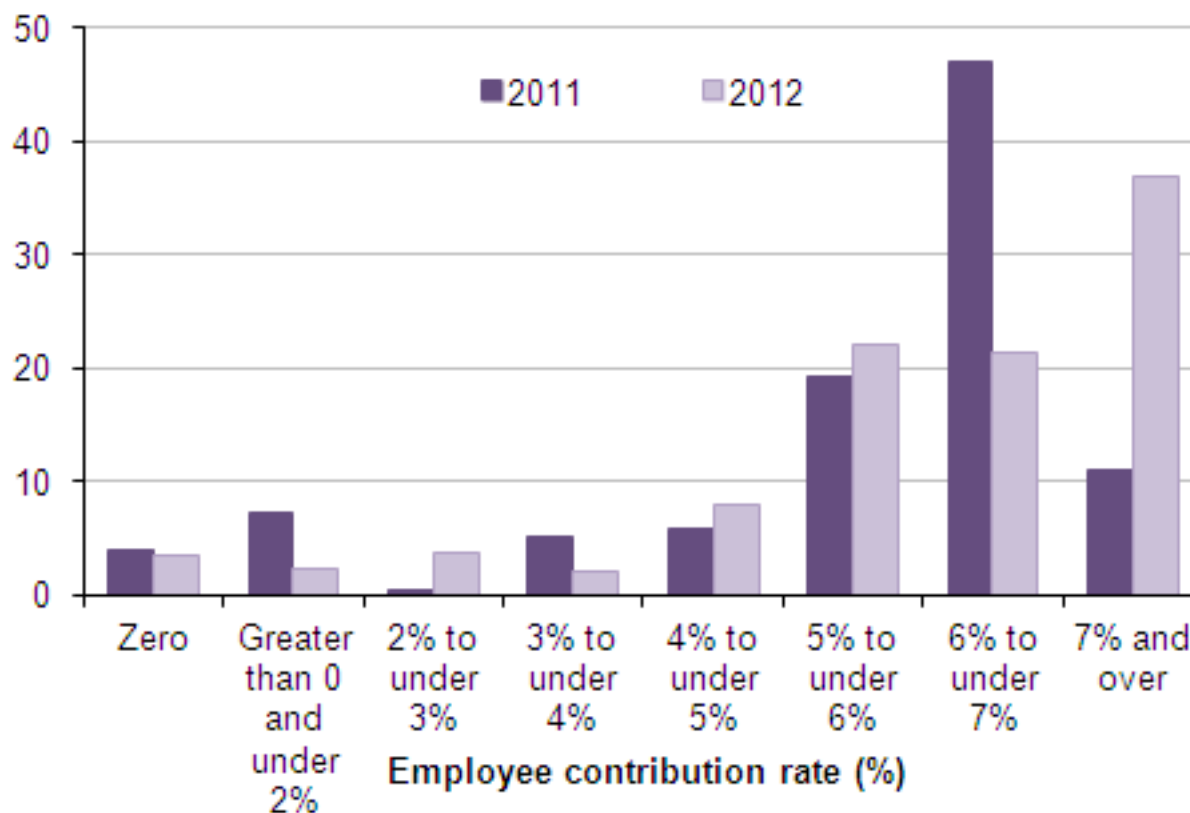
Nearly all public sector occupational pension schemes are DB schemes. Membership is concentrated in the seven big public sector employers: the civil service, the armed forces, the National Health Service (NHS), teachers, the Local Government Pension Scheme (LGPS) for local authority employees, police and firefighters. Apart from the LGPS, which is funded, all of these schemes are run on an unfunded or 'pay as you go' basis (see [Pension Trends Glossary \(198.9 Kb Pdf\)](#)). In the Annual Survey of Hours and Earnings (ASHE), the public sector is classified using the legal status from the [Inter-Departmental Business Register](#) and, from 2009, includes Lloyds Banking Group, the Royal Bank of Scotland Group and HBOS plc.

Between 2011 and 2012, many public sector pension schemes made changes to their employee contribution rates. These were made as a result of recommendations outlined in the [2011 report of the Independent Public Service Pensions Commission](#) chaired by Lord Hutton of Furness. In

general, these changes have led to increased contribution rates, although many schemes have introduced, or were already using, tiered structures where the contribution rate is determined by the employee's earnings band.

**Figure 8.11: Distribution of employee members of public sector occupational pension schemes: by employee contribution rates, 2011 and 2012**

United Kingdom, percentages



Source: Annual Survey of Hours and Earnings (ASHE) - Office for National Statistics

**Notes:**

1. Pension is arranged through an employer. Main pension only.
2. The public sector is classified using the legal status from the Inter-Departmental Business Register and includes Lloyds Banking Group, the Royal Bank of Scotland Group and HBOS plc.

**Download chart**

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Figure 8.11 shows that, in 2011, 47% of employees were paying contribution rates in the '6% to under 7%' band, with 11% paying '7% and over'. Employee contribution rates increased in 2012, with 21% paying contributions in the '6% to under 7%' band and 37% paying '7% and over'.

Employer contributions to unfunded public sector pension schemes are largely an internal accounting transaction within government. For most of these schemes the level of contributions is estimated using a model known as SCAPE (Superannuation Contribution Adjusted for Past Experience). The model estimates the level of contributions which will be sufficient, over time, to cover the scheme's liabilities.

## Personal pensions

Personal pensions, which include stakeholder pensions, are those where individuals enter into a contract with a pension provider, usually an insurance company (see [Pension Trends Chapter 6](#)). They may be taken out on an individual basis or arranged on a 'group' basis (usually facilitated by employers, who may make contributions for members). However, in personal, and group personal pensions, the employer is not the pension provider.

### Employer contributions to personal pensions

Some employers operate group personal pensions (GPPs) or group stakeholder pensions, either as well as an occupational pension scheme or as the main form of pension provision. Although the employees contributing to GPPs and group stakeholder pensions have individual contracts, the administration costs are likely to be lower than if they arranged an individual personal or stakeholder pension independently.

One of the reasons behind the introduction of stakeholder pensions in 2001 was to improve pension provision for people working for small employers<sup>1</sup>. Small employers had often been unable to provide the more traditional form of occupational pension scheme for cost reasons, but stakeholder pensions are a relatively low-cost type of pension scheme. Therefore, it is of interest to examine employer contribution rates to GPPs and stakeholder pensions by size of employer.

Figures 8.12 and 8.13 show the proportion of GPP and stakeholder pension members by employer contribution rate for private sector employers in 2012, for employers:

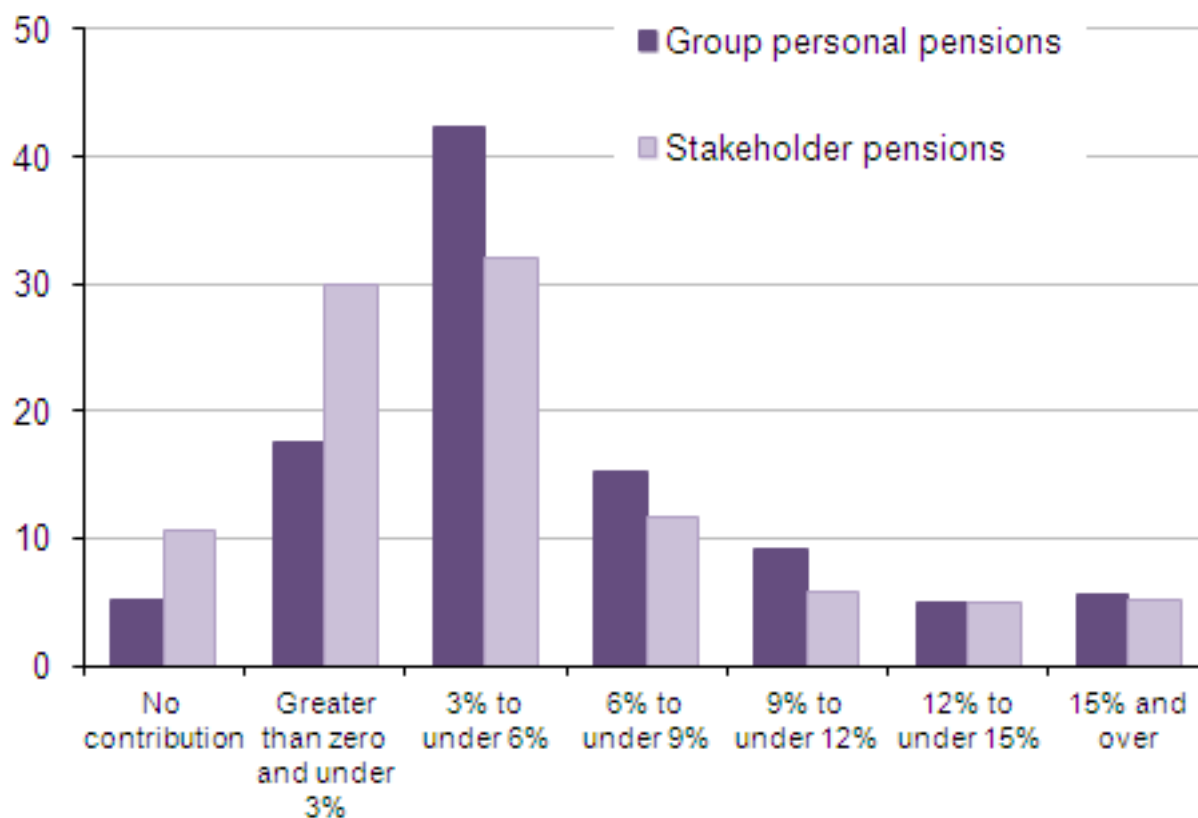
- with fewer than 100 employees (Figure 8.12); and
- with 100 or more employees (Figure 8.13).

These figures relate to a time period prior to the introduction of minimum levels of contributions discussed in the section '**Workplace pension reforms and NEST**'.

The charts show a clear difference. In smaller employers, 35% of those with GPPs and 27% of those with stakeholder pensions had employer contribution rates of 6% and over. For larger employers, 47% of those with GPPs and 47% of those with stakeholder pensions had employer contribution rates of 6% and over.

**Figure 8.12: Distribution of employee members of private sector group personal pensions and stakeholder pensions where employer has fewer than 100 employees: by employer contribution rates, 2012**

United Kingdom, percentages



Source: Annual Survey of Hours and Earnings (ASHE) - Office for National Statistics

**Notes:**

1. Pension is arranged through an employer. Main pension only.
2. Contributions include one-off fixed amount payments, but exclude employer contributions covering more than one employee.
3. The private sector is classified using the legal status from the Inter-Departmental Business Register and does not include 'third sector' organisations such as charities.

**Download chart**

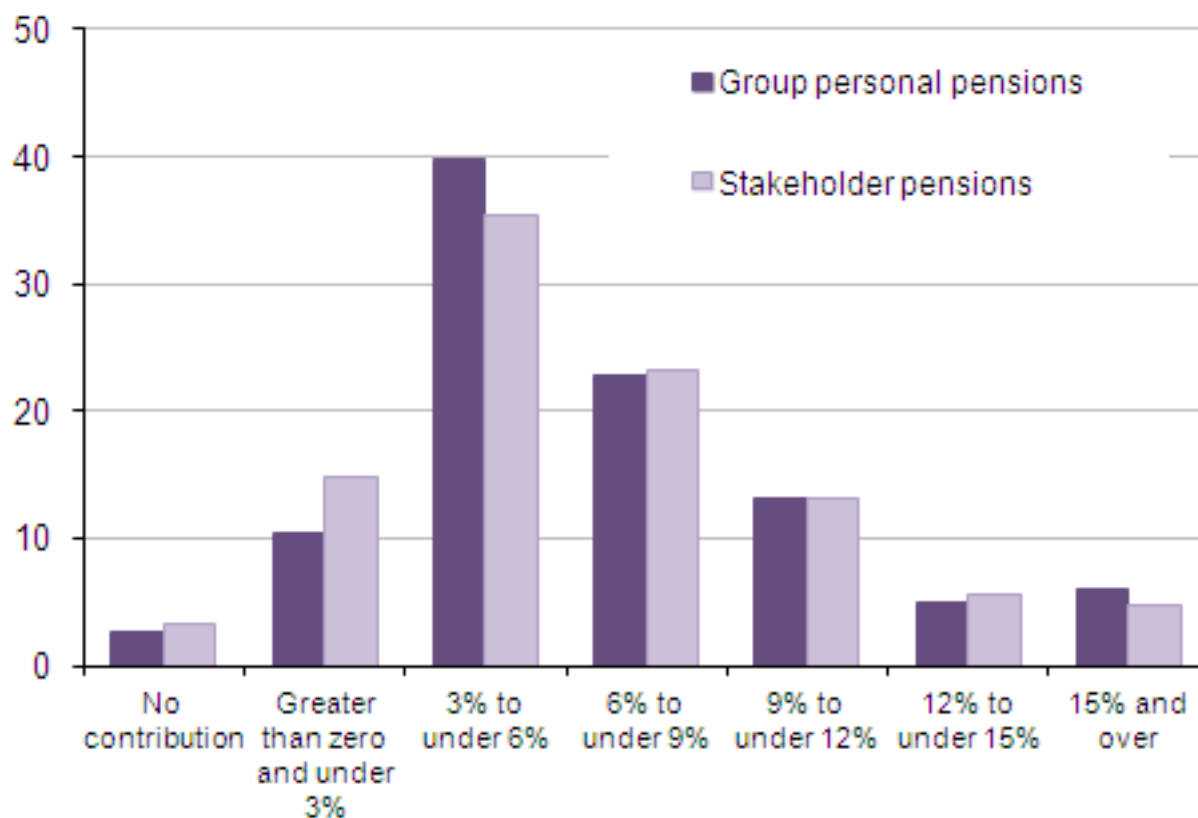
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In larger employers (Figure 8.13), 3% of those with GPPs and 3% of those with stakeholder pensions received no employer contribution in 2012; this compares with 5% and 11% respectively for smaller employers (Figure 8.12).



**Figure 8.13: Distribution of employee members of private sector group personal pensions and stakeholder pensions where employer has 100 employees or more: by employer contribution rates, 2012**

United Kingdom, percentages



Source: Annual Survey of Hours and Earnings (ASHE) - Office for National Statistics

**Notes:**

1. Pension is arranged through an employer, main pension only.
2. Contributions include one-off fixed amount payments, but exclude employer contributions covering more than one employee.
3. The private sector is classified using the legal status from the Inter-Departmental Business Register and does not include 'third sector' organisations such as charities.

**Download chart**

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(126.5 Kb)

**Total contributions to personal pensions**

HM Revenue and Customs (HMRC) publishes estimates of the number of people making contributions to personal and stakeholder pensions and average amounts contributed. All estimates of contributions are in nominal terms (values are not adjusted for inflation).

In 2010/11, the total number of individuals making contributions to personal and stakeholder pensions (whether individual or group personal pensions) was estimated to be 5.7 million. Of those, 5.0 million were employees, 0.6 million were self-employed people and around 0.07 million (70,000) were 'others' (children, people in full-time education, carers, the unemployed and those in receipt of a pension). There were fewer people contributing in 2010/11 than in previous years (see [HMRC Table Pen3](#)). The average contribution per person was higher in 2010/11 (£3,260) than in previous years, according to HMRC. For employees, the average contribution in 2010/11 was £3,260, up from £3,010 in 2009/10. For the self-employed, the average contribution was £3,330 in 2010/11, up from £3,030 in 2009/10.

For the self-employed, individual personal and stakeholder pensions are the main alternatives for private pension saving. The self-employed also rely more on private pensions than employees as they do not have access to the additional state pension.

The total value of contributions paid into personal and stakeholder pensions, retirement annuity contracts and freestanding additional voluntary contributions is shown in Figure 8.14 (for the definitions of RACs and FSAVCs see [Pension Trends Glossary \(198.9 Kb Pdf\)](#)). Contributions to personal and stakeholder pensions consist of minimum contributions and contributions by employers and individuals (employees, the self-employed and non-earners). The figures include contributions to individual and personal pensions. Minimum contributions represent the rebate paid by HMRC to individuals who have used their personal or stakeholder pension to contract out of the additional state pension. Personal and stakeholder pensions are flexible, allowing people to make contributions when they have money available and stop contributing in times of hardship. Total contributions to personal and stakeholder pensions, RACs and FSAVCs reached £20.9 billion in 2007/08, but then fell sharply during the recession, largely due to the fall in the number of people contributing to personal and stakeholder pensions. By 2011/12, they had recovered to reach £20.1 billion.

Employer contributions to personal and stakeholder pensions have seen increases in most years, reaching £9.1 billion in 2011/12 compared with £0.5 billion in 1990/91. On the other hand, individuals' contributions rose from £1.5 billion in 1990/91 to £10.2 billion in 2007/08, but then fell during the recession to £9.0 billion in 2008/09, £7.8 billion in 2009/10 and £7.7 billion in 2010/11. By 2011/12 they had recovered to reach £8.8 billion.

FSAVCs can be made by members of occupational schemes. The decline since 1999/2000 is because many have chosen to save through stakeholder pensions rather than FSAVCs, partly because the administration costs are lower and partly because stakeholder pensions provide a more flexible method of saving. Since 6 April 2006, FSAVCs are no longer separately identified and are included in individuals' contributions.

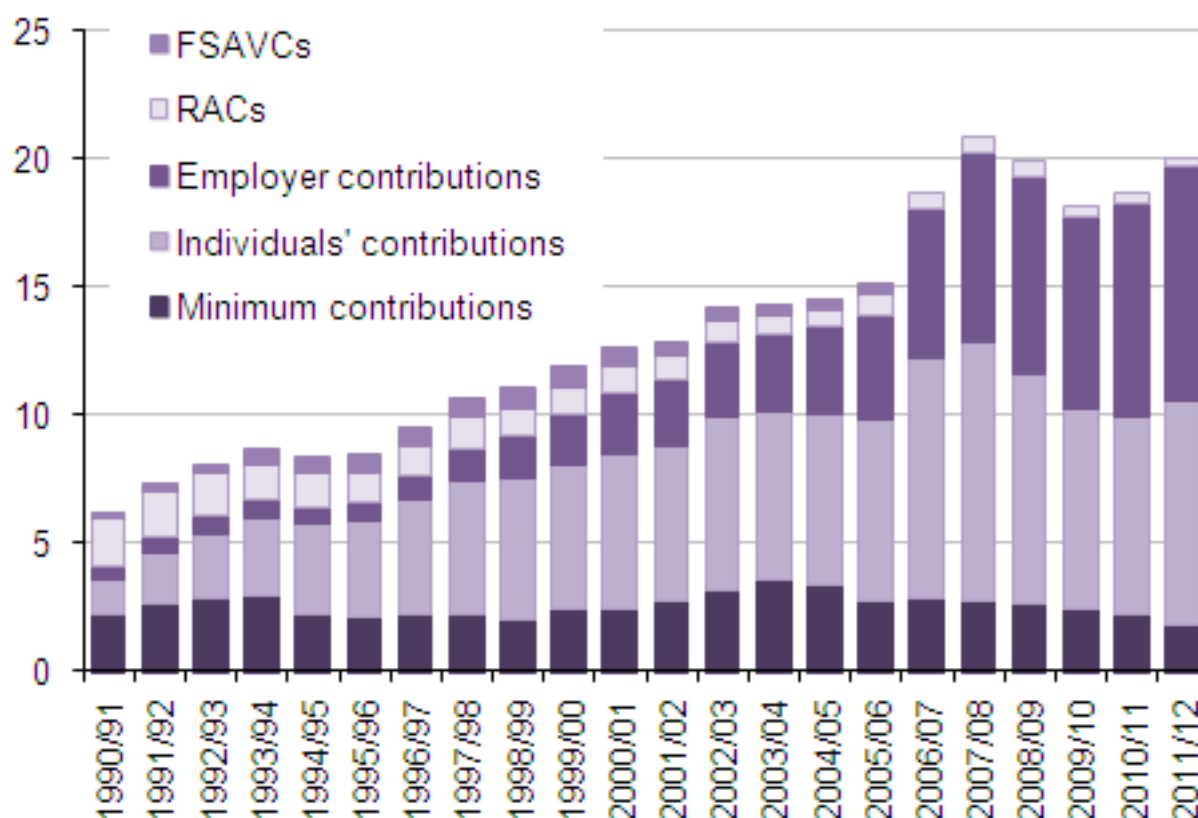
Minimum contributions reached £3.0 billion in 1993/94 and then declined before rising in the first few years of the 21st century to £3.6 billion in 2003/04. As may be expected given the changes under the 2007 Pensions Act (see **Contracting out of private sector occupational pension schemes**), 2011/12 saw the level of minimum contributions at £1.9 billion.

On 6 April 2006 ('A-day', see [Pension Trends Chapter 1](#)), a number of changes were made to the tax treatment of pension contributions. Each individual now has an annual and lifetime allowance for contributions that can receive tax relief. The simplification to pensions tax relief at A-day may

partly explain the 39% increase in total contributions to personal and stakeholder pensions between 2005/06 and 2007/08, from £15.0 billion to £20.9 billion.

**Figure 8.14: Contributions to personal and stakeholder pensions by contribution type (minimum, employer or individual) and to RACs and FSAVCs 1990/91 to 2011/12**

United Kingdom, £billion



Source: HM Revenue and Customs

**Notes:**

1. RACs = Retirement Annuity Contracts. No new RACs could be taken out from 1 July 1988, although those with contracts at this date could still continue to contribute to them.
2. FSAVCs = Free Standing Additional Voluntary Contributions. From 2006/07, these contributions are combined with individual contributions.
3. Minimum contributions represent the rebate paid by HMRC to funds of individuals who have used their personal/stakeholder pension to contract out of the state second pension (state earnings related pension scheme prior to April 2002).
4. Figures for individual contributions comprise contributions by employees, the self-employed and non-earners; from 2006/07 they include FSAVCs.
5. Figures for individual contributions and FSAVCs include basic rate tax relief repaid to scheme administrators by HMRC.
6. Self invested personal pensions (SIPPs) cannot be separately identified from the information collected by HMRC on personal pensions but might be at a future date.
7. All estimates of contributions are in nominal terms (values are not adjusted for inflation).

## Download chart

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(129.5 Kb)

## Notes

1. As a result of the Pensions Act 2008 reforms (see **Private sector occupational pension schemes - Workplace pension reforms and NEST**), the pensions landscape is changing. The National Employment Savings Trust (NEST) is now available to all employers as a 'low-cost' occupational defined contribution scheme that employers can choose to meet their new duties. NEST is designed to have low charges so that more of its members' savings will go towards their income in retirement.

## Aggregate pension contributions

Estimates for aggregate pension contributions were published in the [2012 edition of Pension Trends Chapter 8](#). Figures for 2011, once released, will be available through the Pensions section of the ONS website.

## Background notes

1. Details of the policy governing the release of new data are available by visiting [www.statisticsauthority.gov.uk/assessment/code-of-practice/index.html](http://www.statisticsauthority.gov.uk/assessment/code-of-practice/index.html) or from the Media Relations Office email: [media.relations@ons.gsi.gov.uk](mailto:media.relations@ons.gsi.gov.uk)

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## Supporting Information

### Further information

#### [Pension Trends Chapter 6: Private Pensions, 2013 Edition](#)

This chapter looks at private pensions in the UK that are provided by employers in the private and public sectors and by insurance companies. The analysis presented here focuses on private pensions in the 'accumulation' stage, when people are building up their pensions.

#### [Pension Trends – Chapter 7: Private Pension Scheme Membership, 2013 Edition](#)

This chapter discusses membership of all types of non-state pension, referred to here as private pensions. These comprise occupational schemes for private sector and public sector employees; and personal pensions, including group personal pensions and stakeholder pensions.

### Related Internet Links

#### [Pension Trends](#)

consists of 14 chapters bringing together official statistics on pensions and retirement.

## References

1. [Department for Work and Pensions \(2012\), Baseline evaluation report](#)
2. HM Revenue and Customs: [Pension statistics](#)
3. [National Employment Savings Trust](#)
4. Office for National Statistics, [Annual Survey of Hours and Earnings](#)
5. Office for National Statistics, [Occupational Pension Schemes Survey Annual Report](#)
6. Office for National Statistics, [Occupational Pension Schemes Survey Statistical Bulletin](#)
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8. Office for National Statistics, [Pension Trends Glossary \(198.9 Kb Pdf\)](#)
9. Office for National Statistics, [Improved methods for calculating private pension contributions](#)