

Pensions law – the week in review

31 August 2009

AT A GLANCE

ASSOCIATION OF CONSULTING ACTUARIES

- 2009 Pension Trends Survey: Twilight or a new dawn for defined benefit schemes?

DEPARTMENT FOR WORK AND PENSIONS

- Working Paper No. 72: Individuals' attitudes and behaviours around planning and saving for later life

PENSION PROTECTION FUND

- PPF Bulletin: Issue 1
- PPF publishes details of its voting record

1 ASSOCIATION OF CONSULTING ACTUARIES (ACA)

1.1 2009 Pension Trends Survey: Twilight or a new dawn for defined benefit schemes?

The ACA's recently published pension trends survey indicates that nearly nine out of ten defined benefit (DB) schemes are now closed, but that there is unease with present alternatives.

The survey, which was carried out during June and July 2009, is based on the views of over 300 employers of all sizes, on a wide range of topical issues, including changes in pension scheme design.

Among the survey's findings are that:

- 87% of DB schemes are closed to new entrants (up 6% on the position two years ago);

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- 18% of DB schemes are closed to future accrual for existing members (up 4% since 2007);
- 13% of DB schemes remain open to future accrual and to new members; and
- 76% of employers felt their employees were uncomfortable in taking on investment, inflation and longevity risks, while 81% considered their employees were not capable of determining how they should manage their defined contribution (DC) pension saving.

However, rather than seeing a universal migration towards DC pension options, the survey found that a significant number of employers are seeking alternative solutions (generally for existing employees) within the existing DB framework. Examples include: reducing the rate of future accrual, increasing normal pension age, and switching to arrangements based on average earnings (career average revalued earnings or “CARE” schemes”).

The ACA’s press release and report can be accessed by clicking on the links below:

http://www.aca.org.uk/files/Test-31_August_2009-20090831132027.pdf

http://www.aca.org.uk/files/ACA_2009_Pension_trends_report_No.1-1_September_2009-20090828155548.pdf

2 DEPARTMENT FOR WORK AND PENSIONS (DWP)

2.1 Working Paper No. 72: Individuals' attitudes and behaviours around planning and saving for later life

The DWP has recently published Working Paper No. 72, which sets out the results of qualitative and quantitative research commissioned jointly by the DWP and the Personal Accounts Delivery Authority into the attitudes of individuals towards planning and saving for retirement.

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The initial qualitative phase of the research found that attitudes to money tend to be deeply ingrained, although there is a wide range of confidence and readiness for a financially secure retirement. In relation to money management, the research found three main types of behaviour:

- *Spenders*: those who only ever spend money and, however much they earn, never have anything left at the end of the month;
- *Apportioners*: those who are good at putting money aside for specific things (such as bills, holidays or emergencies); and
- *Money growers*: those who are attracted by the notion that money can be invested somewhere and it will grow.

The report notes that individuals generally start to consider pensions as they begin to assume other responsibilities, for example, buying a house, getting married, having children and taking on financial responsibilities.

Among the quantitative findings, the research indicates that:

- a quarter of respondents want to retire before they are 60;
- only a quarter of respondents were aware of their State Pension Age (SPA), with those under age 45 least likely to know their correct SPA;
- a third of respondents were confident that they would have enough to retire on and a similar proportion reported that they are putting away as much as they could for retirement. However, the report also notes that the confidence of younger respondents was based more on hypothetical future financial savings than on current behaviour;

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- two thirds of respondents considered it their responsibility (rather than the Government's) to provide for their retirement, although only one third overall had actually considered how much money they would need to live on when they retired; and
- overall about six in ten respondents reporting having some form of retirement provision.

Working Paper No.72 can be accessed by clicking on the link below:

<http://research.dwp.gov.uk/asd/asd5/WP72.pdf>

3 PENSION PROTECTION FUND (PPF)

3.1 PPF Bulletin: Issue 1

The PPF has published the first edition of its by-monthly electronic newsletter - the "PPF Bulletin".

The Bulletin includes a round-up of recent PPF news, including brief updates on:

- the future development of the PPF levy;
- the PPF's early announcement of the levy estimate for 2010/11;
- the fact that the PPF is considering making changes to the assumptions used for carrying out valuations for the purposes of sections 143 and 179 of the Pensions Act 2004, in the light of recent developments in the buyout market; and
- a reminder that the PPF has recently taken over responsibility for the administration of the Financial Assistance Scheme.

Issue 1 of the PPF Bulletin can be accessed by clicking on the link below:

http://www.pensionprotectionfund.org.uk/ppf_bulletin_sept_2009.pdf

3.2 PPF publishes details of its voting record

The PPF has also recently published details of its UK voting record for the period from April to June 2009.

The PPF's voting rights are exercised by F&C, its appointed voting and engagement specialist. During the period in question, F&C voted on behalf of the PPF in 1064 resolutions at 78 company meetings. The PPF supported management in 94% of the votes cast, opposed management in 2% of cases and abstained on 3% of resolutions.

The PPF has published a summary of its voting record, in which it sets out details of its abstentions and oppositions.

The PPF's UK voting record can be accessed by clicking on the link below:

http://www.pensionprotectionfund.org.uk/voting_q2_2009.pdf