

Press Release

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NAPF ANNUAL SURVEY SHOWS STABLE PICTURE FOR WORKPLACE PENSIONS, THOUGH MORE CHALLENGES AHEAD

Survey also covers – Scheme Running Costs, Funding Levels and Asset Allocation

The latest NAPF Annual Survey of UK pension schemes (published today) reveals that workplace pension provision is finding a new equilibrium after many years of change.

In 2007, as was also the case in 2006, around a third of private sector defined benefit schemes remain open to new members (31% in 2007, 33% in 2006). And around two thirds (62%) expect to keep these schemes open in either their current or a modified form over the next five years, with only 1% of open private sector defined benefit schemes expecting to close the scheme to current employees.

However, the impact of pension reform on today's workplace pensions should not be under-estimated. The survey shows that 75% of schemes believe they will be affected by the 2012 pension reforms (which include the introduction of Personal Accounts) and they will have to make some changes to their schemes to comply with the new rules, for example, auto-enrolment.

NAPF Chief Executive, Joanne Segars, said: "The survey's findings show the importance employers place on continuing to provide good workplace pensions. This commitment should be celebrated.

"However, while the overall picture shows that the pensions landscape is stable, the operating environment for occupational pensions is tough and likely to get tougher.

"The Government must use the Pensions Bill to bolster current workplace pensions to ensure their future existence for today's and tomorrow's workers. The deregulation proposals are a good start, but they are only that. More must be done to offer support to employers offering good workplace pensions to ensure they remain open

and can afford to invest more than the minimum required under the coming Personal Accounts system.”

The survey¹, based on the responses of 369 NAPF fund members with 8.7 million members and £500 billion under management, provides a comprehensive picture of the UK pensions landscape.

The survey's other key findings are set out below:-

Defined Benefit (DB) schemes

Previous NAPF Annual Surveys have charted the closure of DB schemes to new entrants. The rate of closure accelerated when equity markets fell at the turn of the century but has slackened considerably since peaking in 2002.

The NAPF survey shows the proportion of defined benefit schemes that remain open to new members is relatively stable. 31% of open private sector DB schemes are still open to new members, down from 33% in 2006. In addition, 95% of schemes still allow members to accrue new benefits.

Over the next five years 40% of private sector respondents with open DB schemes expect no changes to be made to pension arrangements. 22% expect to modify their schemes while retaining at least some DB elements, 15% expect new employees to be offered pure money purchase pensions (defined contribution) and 22% felt unable to answer.

Defined Benefit (DB) Funding

DB schemes were on average 93% funded on an IAS19/FRS17 basis (up from 86% in 2006). 27% of schemes reported an accounting surplus, up from 16% in 2006.

Defined Contribution (DC) Schemes

The survey also shows that employers operating defined contribution schemes are, on average, contributing 7% of pensionable pay - more than double the 3% required by the new Personal Accounts system due to be introduced in 2012.

The importance of the need for a good quality default fund is highlighted by the fact that 84% of DC schemes have a default fund and that 91% of all members in these schemes have left their money in that default fund.

Trusteeship Trends

20% of schemes state that employer-nominated trustees had resigned owing to concerns over conflicts of interest or trustees' increasing workloads. The survey also shows that 40% use independent (professional) trustees and others are considering doing so.

Asset Allocation

The trend away from equities towards fixed interest and alternative assets continues with 55% of DB assets being invested in equities, down from almost 60% in 2006. 29% are in fixed interest assets, up from 26% in 2006.

Since 2005, the proportion of schemes investing in property has risen from 50% to 60%. The proportion investing in hedge funds has risen from 8% to 17%.

Pension Scheme Running Costs

The median level of running costs reported by schemes was 0.4% of assets under management.

The table below highlights the increase in costs that pension schemes have had to face between 2005 and 2007.

Administration/ communications/ governance/other	51%
Fund management	105%
Fees to advisers and consultancies	62%
Levies	530%

Base: between 197 and 277 schemes in 2007; 332 schemes in 2005

ENDS

Notes to Editors

1. The survey received responses from 369 NAPF fund members, though not all responded to every question. Fieldwork commenced on 20 August 2007 and

closed on 28 September 2007. Nearly all respondents operate defined benefit schemes. Most also operate defined contribution schemes.

Assets in respondents' defined benefit schemes total £481 billion. Assets in defined contribution schemes total £7.2 billion. (Where respondents knew the value of assets in both types of scheme, 83% said there was at least ten times as much money in their defined benefit scheme as in their defined contribution scheme).

7.8 million people have pension entitlements in the defined benefit schemes operated by respondents. Around 900,000 people are saving in their defined contribution schemes.

The 33rd National Association of Pension Funds' Annual Survey of UK Pension Funds 2007 can be purchased via www.napf.co.uk. The Annual Survey is under NAPF copyright and the NAPF does not permit the onward access or distribution in whole or in part to others for any purpose whatsoever.

About The National Association of Pension Funds

The NAPF is the leading voice of workplace pension provision in the UK. Some 10 million working people are currently in NAPF Member schemes, while around 5 million pensioners are receiving valuable retirement income from such schemes. NAPF Member schemes hold assets of around £800bn, and account for approximately one fifth of investment in the UK stock market.

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