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Coverage

United Kingdom

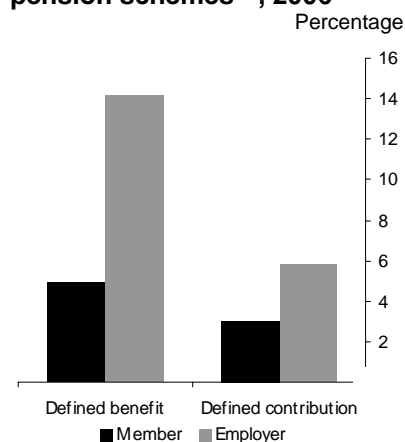
Theme

Social and Welfare

Growing difference in pension contributions

There is a marked and growing difference between contributions rates for 'defined benefit' and 'defined contribution' schemes in the private sector, according to the Occupational Pension Schemes Annual Report, published today by the Office for National Statistics.

Contribution rates to open private sector occupational pension schemes^{1,2}, 2006



Contribution rates in 2006 to private sector open defined benefit schemes – those where the benefits are specified, usually related to final salary – were 4.9 per cent for members and 14.2 per cent for employers. For open private sector defined contribution schemes – also known as 'money purchase' schemes – the contribution rate was 3.0 per cent for members and 5.8 per cent for employers.

Between 2004 and 2006, contribution rates to open private sector defined benefit schemes increased from 16.8 per cent to 19.2 per cent, but there was little change for defined contribution schemes.

Contribution rates to private sector occupational pension schemes: by benefit type, contributor and status^{1,2}, 2004 to 2006

	Member		Employer		Total	
	Open	Closed	Open	Closed	Open	Closed
Defined benefit						
2004	4.6	3.9	12.1	17.1	16.8	21.0
2005	4.9	3.6	13.9	18.8	18.8	22.4
2006	4.9	4.5	14.2	15.0	19.2	19.5
Defined contribution						
2004	2.9	3.1	6.2	4.2	9.1	7.3
2005	2.7	2.6	6.0	8.0	8.7	10.6
2006	3.0	2.5	5.8	5.4	8.9	7.8

1 Includes schemes with zero contributions 2 Schemes with 12 or more members

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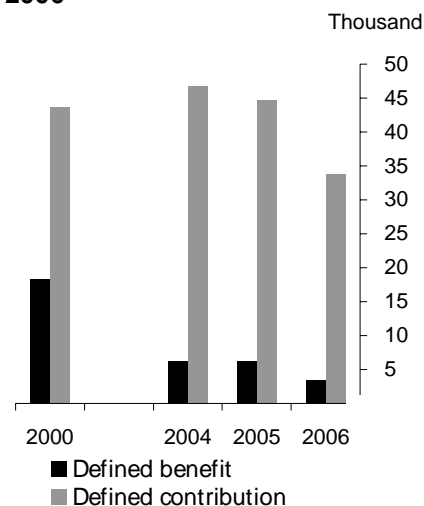
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Scheme numbers fall

The estimated number of open occupational pension schemes in the UK was 37,540 in 2006, 60 per cent of the number open in 2000. The total number of schemes in the UK was 66,710, but a high proportion were closed, frozen or winding up. In the top two size bands (membership of 5,000 or more) in 2006, half of all schemes were closed. Most large, closed private sector schemes were either defined benefit or multi-section schemes. Most open single section private sector schemes were defined contribution.

Number of open private sector occupational pension schemes with only one section, 2000¹ to 2006



¹ There were no surveys in 2001 to 2003

Membership of private sector schemes declines

In 2006, there were an estimated 9.6 million active members of occupational pension schemes, of whom 4.4 million were in the **private sector**, compared with 6.5 million in 1991 and 8.1 million at the peak in 1967. Over the last 15 years, the decline in private sector membership reflects a fall in membership of defined benefit schemes, from 5.6 million in 1991 to 3.3 million in 2006.

In 2006, 70 per cent of active members of private sector schemes were in contracted out defined benefit schemes, while 5 per cent were in contracted out defined contribution schemes.

Active membership of **public sector** schemes rose from 4.2 million in 1991 to 5.1 million in 2006, despite a reclassification of some large public sector schemes to the private sector from 2000. Public sector schemes are predominantly defined benefit.

After increasing in every survey from 1953 to 1995, the number of occupational pensions paid to retired people has stabilised in recent years; the estimated total number in 2006 was 8.5 million.

BACKGROUND NOTES

1. The Occupational Pension Schemes Annual Report (2006 edition) can be found on the National Statistics web site at:
http://www.statistics.gov.uk/downloads/theme_population/Occ-pension-2006/OPSS_Annual_Report_2006.pdf
2. The report presents detailed results of the 2006 survey of occupational pension schemes, carried out by the Office for National Statistics (ONS). Provisional headline results were published in a First Release on 10 July 2007. The annual report revises and replaces the results in the First Release and compares the 2006 findings with the findings of earlier surveys carried out by the Government Actuary's Department (GAD). GAD ran surveys of public and private sector occupational pension schemes every four to five years between 1953 and 2004. In 2005, it ran a survey of the private sector only. The 2006 results are the first to be published by ONS since it took over responsibility for running the occupational pension scheme surveys from GAD on the recommendation of the Morris Review.
3. The 2006 survey covers occupational schemes only. It does not cover personal (including stakeholder) pensions, whether individual or group schemes. The sample for the survey was based on the Pensions Scheme Registry maintained by the Pensions Regulator.
4. Definitions:

Occupational pension scheme: An arrangement (other than accident or permanent health insurance) organised by an employer (or on behalf of a group of employers) to provide benefits for employees on their retirement and for their dependents on their death.

Public sector schemes: Schemes for the part of the economy that is state-provided, including central and local government, schooling, health and social services, policing and the armed forces.

Private sector schemes: Schemes for the part of the economy consisting of individuals, firms and other institutions. For the purposes of the occupational pension schemes survey, from 2000 private sector schemes have included schemes in some public sector areas such as the Bank of England, the BBC, Transport for London, universities and the Post Office, as well as schemes where there is an element of a government guarantee.

Defined benefit scheme: A pension scheme in which the rules specify the rate of benefits to be paid. The most common defined benefit scheme is a salary-related scheme in which the benefits are based on the number of years of pensionable service, the accrual rate and either final salary, the average of selected years' salaries or the best year's salary within a specified period before retirement.

Defined contribution scheme: A pension scheme in which the benefits are determined by the contributions paid in, the investment return on those contributions and the type of annuity purchased upon retirement. It is also known as a money purchase scheme.

Scheme status: An occupational pension scheme may be open, closed, frozen or winding up. An **open** scheme admits new members. A **closed** scheme does not admit new members but may continue to receive contributions from or on behalf of existing members who continue to accrue pension rights. In a **frozen** scheme, benefits continue to be payable to existing members but no new members are admitted, and no further benefits accrue to existing members. Members can make no more contributions but further employer contributions may, and perhaps must be made, for example to correct a deficit. A scheme that is **winding up** is in the process of termination, either by buying annuities for the beneficiaries or by transferring assets and liabilities to another scheme.

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