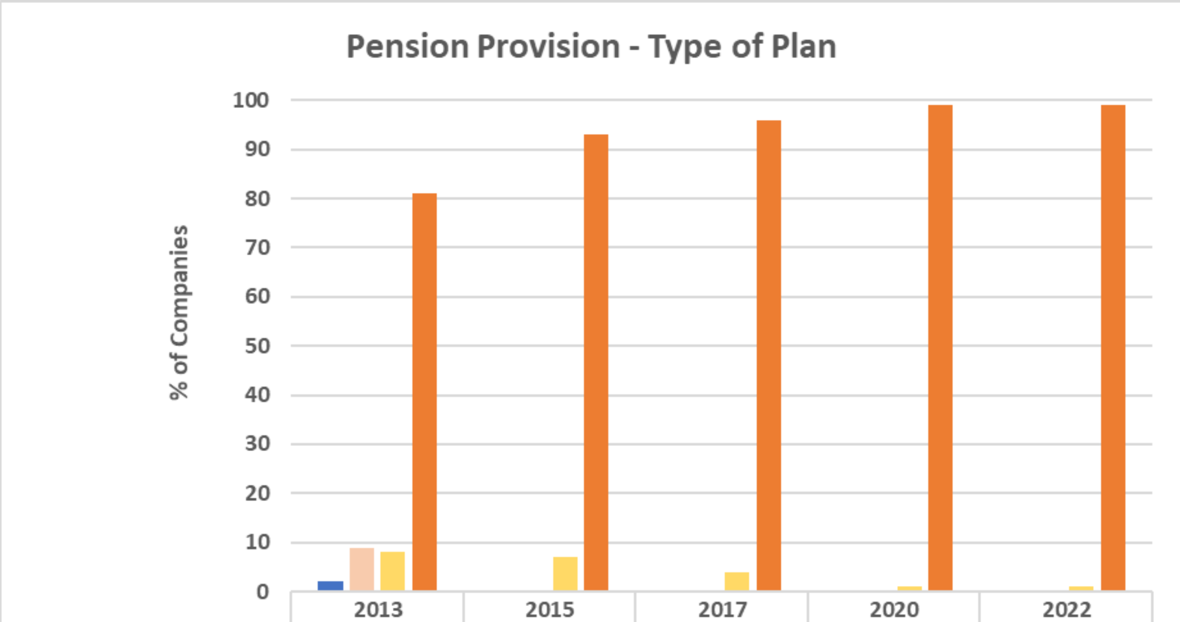
Pension Provision

Though a company may retain one or more historic schemes for existing members; they typically have only one scheme which is available to new members. The information provided in this section applies to such ‘open’ schemes and excludes those that are closed to new entrants.

Ninety nine percent of open schemes are defined contribution schemes, most popularly group personal pension plans (81% of these schemes) though some are classified as stakeholder, group money purchase schemes or master trust schemes such as NEST. Our analysis combines all defined contribution schemes together.

Only 1% of companies participating in this survey continue to offer a final salary scheme to new hires. This has not changed since 2019, having dropped from 4% in 2017.

The chart below indicates pension provision, as shown by our survey in 2-yearly intervals, since 2013. Prior to auto-enrolment in 2012, 10% of participating companies did not operate an in-house pension scheme, and 8% continued to operate a defined benefit scheme, which was open to new members. All participating companies now operate an employee pension scheme, as required by law, with 99% being defined contribution schemes.



	2013	2015	2017	2020	2022
No Pension Provision	2	0	0	0	0
Contrib. to Pers Pen.	9	0	0	0	0
Defined Benefit	8	7	4	1	1
Defined Contribution	81	93	96	99	99

Auto-Enrolment

The requirements of pension auto-enrolment legislation mean that companies must provide a company pension scheme that meets certain minimum standards and automatically enrol all employees (dependant on age and salary level) into that scheme.

Employers are required to make contributions to a company pension scheme for all qualifying employees unless an individual applies to opt out. Most organisations participating in this survey had an existing pension scheme that met the requirements or required minor changes only. Some had to make more significant changes to their pension scheme, to ensure they complied with the legislation with respect to eligibility, minimum age of entry and pension contribution rates, or introduced a new pension scheme for employees joining the company which satisfies auto-enrolment requirements.

Employers must automatically enrol employees who:

- do not already qualify for a workplace pension scheme
- are at least 22 years of age
- are below state pension age
- earn more than the specified minimum salary
- ordinarily work in the UK.

The minimum contribution is a percentage of pensionable earnings and includes employer contribution, employee contribution and any tax relief. This minimum contribution is currently 8% of qualifying earnings, 3% of which must be made by the employer. Employers can contribute more than the minimum and most organisations participating in this survey do so.

Pensionable Earnings

In 96% of schemes, pensionable earnings are defined as base salary only. The remaining 4% of companies include annual cash bonus, or a portion of it, as a part of pensionable earnings.

Defined Benefit (Final Salary) Pension Plans

A defined benefit, or final salary, scheme provides for a pension based on the individual’s pay at, or close to, retirement. For each year of service, the individual accrues a percentage of final salary as a pension. A defined benefit pension scheme gives the company an open-ended liability since the pension will be paid for the life of the pensioner and may also provide for bereavement benefits for the surviving partner. With the increased costs associated with final salary schemes, most companies have closed such schemes to new members.

Only 1% of the participants in this survey continue to offer a defined benefit (final salary) pension scheme to all staff including new joiners, having fallen to this level from 4% in 2017.

Retention of Defined Benefit Schemes for Existing Members

Eighteen percent of companies with a defined contribution scheme (20% in 2020) report that they have retained a defined benefit scheme for existing members, though the defined benefit scheme was closed to new members, in some cases, many years ago. We have seen several of these final salary schemes 'frozen', with no additional contributions made after a certain date, and members' ongoing pension contributions made to the company's defined contribution scheme.

As we now hold very little information on the final salary schemes still in operation, we are unable to provide further details.

Defined Contribution (Money Purchase) Pension Plans

Defined contribution plans provide a specified contribution, or funding, for each employee. These plans are typically provided by a group personal pension (GPP), group money purchase (GMP), or stakeholder scheme. Usually, the employee may select the investment funds, from a defined list, into which contributions are invested. The final amount accrued over the period of pensionable employment is used to provide retirement benefits for the plan member.

Ninety-nine percent of participating companies provide some form of defined contribution (money-purchase) pension scheme (unchanged since 2019). These schemes typically take the form of a group personal pension plan (81% of defined contribution schemes), a group money purchase or stakeholder scheme.

Employee Contribution Rates

Twenty-seven percent of companies with a defined contribution scheme require employees to make a contribution to the scheme. This is down slightly from 28% reported in 2020. The remaining 73% of defined contribution schemes are non-contributory schemes where employee contributions are not mandatory, though they do allow for, or actively encourage, employees to make voluntary contributions.

The table below indicates median and quartile data for the minimum employee contribution rates required by contributory schemes. None of the companies participating in our survey now require different rates of contribution for managers and clerical staff, with the same rate, by percentage of pensionable earnings, being applied to all staff in the scheme. Prior to 2019, a small minority (3% in 2018) reported different employee contribution rates, by category of staff.

MINIMUM EMPLOYEE CONTRIBUTIONS
% Base Salary (contributory schemes)

% contribution	**2022**	**2020**
Lower Quartile	2.0	2.5
Median	3.0	3.0
Upper Quartile	5.0	5.0
Mode (most popular)	*3.0/ 5.0*	*5.0*

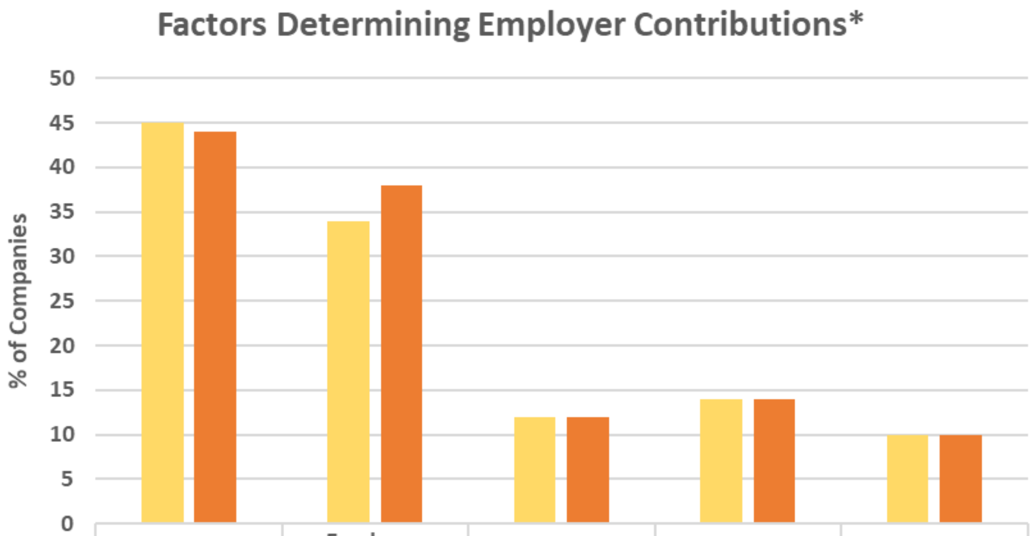
Though the median and upper quartile rates for employee contribution to the pension scheme remain unchanged we have seen a small decrease in the lower quartile rate, to 2% having been at 2.5% in 2020. The most popular rates are now equally 3% or 5%, again showing a slight drop since 2020. These changes are due to changes in sample, rather than changes to existing schemes.

It is not unusual for companies to encourage increased voluntary employee contributions by providing additional pension funding on a contribution matching basis (see details under the heading Matching Employee Contributions).

Employer Contribution Rates

Employer contribution rates for defined contribution plans are set in the scheme rules. Under auto-enrolment legislation, the minimum total contribution rate (including employer and employee contributions) is currently 8% of pensionable earnings. The minimum employer contribution is 3%.

The chart below indicates the factors used by the companies participating in this survey to determine the rate of employer's pension contribution. Forty–four per cent operate a fixed rate as a percentage of pensionable pay for all employees. Increasing in popularity over the last few years is for the company to match employee contributions up to a certain level, to encourage employees to make their own contribution to their pension 'pot'. As shown below, a minority of companies continue to use factors such as seniority, service and age, or use a combination of factors to determine the rate of employer pension contribution.



	Fixed Rate All Staff	Employee Contribution Rate	Seniority	Service	Age
2020	45	34	12	14	10
2022	44	38	12	14	10

*The data shown above does not total 100% as around 18% of companies use a combination of factors. The most popular combinations of such factors are combining employee contribution rate matching with variations by age or seniority of employee.

Age discrimination legislation permits the use of age-related pension contributions, where the ultimate aim is to provide equal pension outputs at retirement. However, we have seen the percentage of companies using 'age' as one of the factors in determining the employer's contribution fall from 30% to 10% in the last 15 years.

Fixed Rate Employer Contributions

Forty–four percent of companies use the same rate of pension contribution as a percentage of pensionable earnings, for all staff (excluding grandfathered schemes). This is slightly down from 45% reported in 2020 due to changes in sample. The following table gives median, lower and upper quartile figures for the level of employer contribution rates for those companies where the rate is the same for all members of each scheme, and shows there has been no change in these quartile figures since last year.

EMPLOYER CONTRIBUTION RATE (where fixed for all staff)
% Pensionable Earnings

	2022	**2020**
Lower Quartile	10.0	10.0
Median	10.0	10.0
Upper Quartile	12.5	12.5
Mode (most popular)	*10.0*	*10.0*

The median rate has been at 10% for many years. This is also the most popular rate of employer contribution and is made by 48% of those companies with a fixed rate of contribution (40% in 2020). Thirty-eight percent of those with the same rate for all have a higher contribution rate, ranging from 12-15% of pensionable earnings. The lowest rate of contribution, where it is fixed by all staff, is 8%.

Matching Employee Contributions

Thirty-eight percent of companies encourage employees to contribute to their pension by linking the employer's contribution to that made by the employee. A minimum rate of employer contribution applies regardless of whether the employee decides to make their own contribution to the plan.

In three–quarters of these cases it is solely the rate of employee contribution that influences the employer's contribution rate with the remaining 25% using a combination of factors which may include length of service, seniority, or age.

Most matching schemes work on a one for one (1:1) basis, though nearly 20% of those schemes providing matching contributions do so on a two for one (2:1) basis, whereby the employer contributes 2% of salary for every 1% the employee contributes.

Usually, the company pays a minimum rate, and then, for every percentage of base salary the employee contributes up to a specified limit or cap, the employer makes an additional matched contribution.

Within such schemes, the median rate of employer contribution before employee contribution matching is taken into consideration is currently 7%. The median rate including matched contribution (where the maximum rate is applied) is 10%.

Using the median figures above as an example, a company makes a minimum 7% contribution to all staff regardless of their personal contribution but will then match any contribution made by the employee, on a one for one basis, to a maximum of a further 3%. Hence, the employee can gain a 10% contribution from the employer if he/she makes their own contribution of 3% of base salary.

Employer Contribution Rates (All Companies)

Bearing in mind that the factors influencing employees' contribution rates vary from company to company, the following table indicates median, upper and lower quartile figures, for both minimum and maximum employer contribution rates, for all pension schemes for which we hold data. This includes those with a fixed rate of contributions for all members, and those that vary the rate of contribution, on the factors previously mentioned.

Please note that seniority is no longer a significant factor in determining contribution rate.

EMPLOYER CONTRIBUTION RATE (all participating companies)
% Pensionable Earnings

	Minimum Employer Contribution*	**Maximum Employer Contribution***
Lower Quartile	6.0	10.0
Median	9.0	10.0
Upper Quartile	10.0	13.0
Mode (most popular)	*10.0*	*10.0*

*The figures are unchanged from that reported in 2020. An employer contribution rate of 10% is by far the most popular, with 26% of all schemes for which we have data applying this rate as a minimum contribution and 38% applying it as a maximum contribution rate.

Cap on Employer Contributions

Prior to 2006, a statutory salary cap was in place, limiting the salary on which employers were permitted to make contributions to an employee's pension. This has subsequently been replaced by lifetime and annual allowances. However, a minority of organisations participating in this survey report that they continue to impose a salary cap, with no pension contributions being made on salary earned above this cap. The cap set is often linked to the previously applied Inland Revenue 'notional earnings cap', with some having uplifted the cap over time.

Fifteen percent of participating companies currently apply a cap, having been around 20% in 2020 and for the previous 2 years. The median salary cap is currently reported as £150,000, unchanged since 2018.

Annual and Lifetime Allowances

The annual allowance is the maximum total amount of contributions that can be made by the employee and the employer, for tax relief purposes, and is now set at £40,000 though this may taper for high earners.

The lifetime allowance remains at £1,073,100 until at least the 2025-26 tax year.

Although it is not the employer's responsibility to notify employees if they are at risk of reaching these maximum allowances many feel they should, at least, advise high earners. This can be difficult where the employer is not aware of other pension benefits held by the individual from previous employment, and how they may impact on life-time allowances.

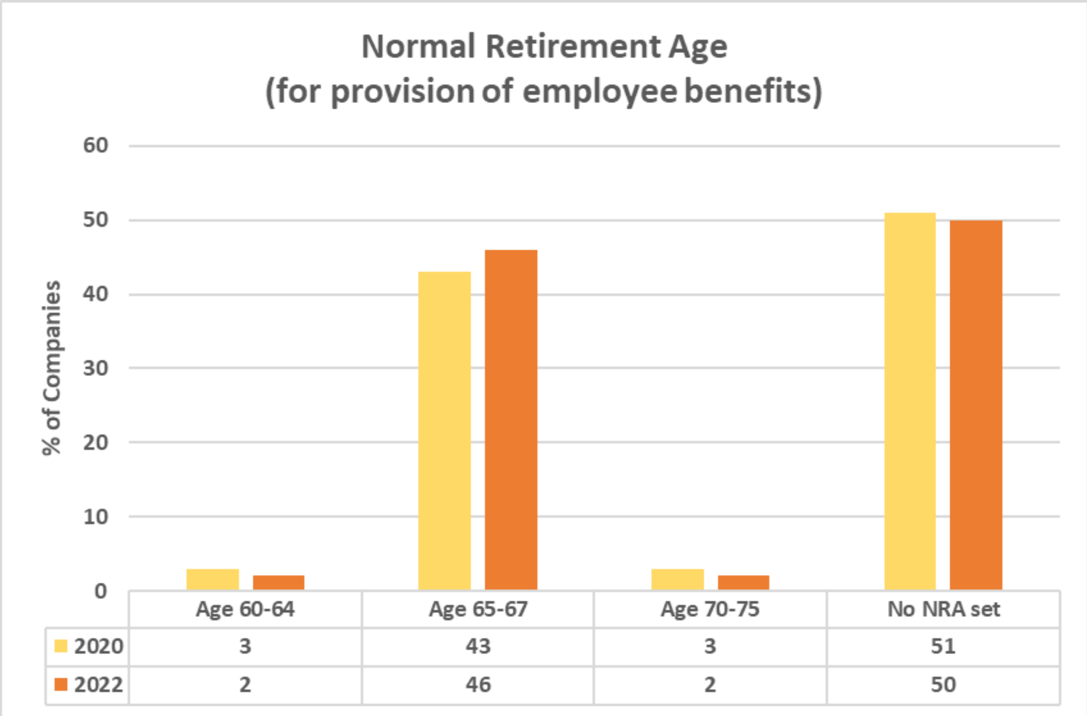
A number of companies participating in this survey have implemented alternative methods by which they may assist high earning employees to save for retirement. In most of these cases, where employees are impacted by these limits, survey participants have responded to confirm they will pay a cash sum equivalent to the employers' normal pension contribution, via their payroll, to employees that have had to cease active membership of the company pension scheme. These cash payments are subject to income tax. Death-in-service and other insured benefits typically continue for affected staff.

Normal Retirement Age

The removal of the default retirement age (DRA) in 2011 raised many issues for the employer, not only in terms of pension arrangements, but also in determining employee benefits; succession planning; career progression and performance management, while ensuring that all policies and practices are fair and consistent across the whole workforce, regardless of age.

It is not unlawful for an employer to withdraw employer-provided insurance or a related financial service when the employee reaches the state retirement age. This exception covers employer-provided group risk benefits such as income protection, life assurance and private medical cover. It does not cover self-insured arrangements. Hence several schemes have set a normal retirement age (NRA) when most employees are expected to take their pension. Some have limited this to final salary scheme members only; others intend to follow the state retirement age (currently 66 but rising to 67 by 2028) to limit membership to some benefits, particularly life and medical insurance.

The following chart shows normal retirement ages as reported to our survey over the last 12 months. This is compared to the same information reported by us last year. In 2011, prior to the change in legislation, 81% of companies operated a default retirement age of 65 years.


Normal Retirement Age
(for provision of employee benefits)
% of Companies
60
50
40
30
20
10
0
Age 60-64
Age 65-67
Age 70-75
No NRA set
2020
3
43
3
51
2022
2
46
2
50