

Pension Trends

Chapter 8: Pension contributions

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Note on the data presented in this chapter

Clickable tables and figures

All the tables and figures in this chapter are 'clickable'. This means that in the online version of the chapter, readers can click on any table or figure to download a spreadsheet containing the data used to create it.

Data sources and reliability

The data sources in this chapter are classed as National Statistics or as other types of official statistics ('Not National Statistics'). The **List of tables and figures** shows which classification

applies to each table or figure: National Statistics (NS) or not (NNS). Information quoted in the text is normally based on the tables and figures. Information in the text which is not based on a table or figure is classed as National Statistics unless otherwise stated.

The term 'National Statistics' is an accreditation quality mark which stands for a range of qualities such as relevance, integrity, quality, accessibility, value for money and freedom from political influence. Sources classed as National Statistics comply with the professional principles and standards set out the UK Statistics Authority's Code of Practice for Official Statistics. For further information on the Code of Practice, see: www.statisticsauthority.gov.uk/assessment/code-of-practice/index.html

Data labelled as 'Not National Statistics' (NNS) does not comply fully with the required standards, but has still been deemed suitable for publication.

Further information on the sources used in Pension Trends can be found in the Guide to Pension Statistics at: www.ons.gov.uk/ons/guide-method/method-quality/guide-to-pension-statistics/index.html

Pension contributions

- In 2009, according to the Occupational Pension Schemes Survey, the average employee in private sector defined benefit (DB) occupational pension schemes contributed 5.2 per cent of salary to their pension, compared with 2.9 per cent for employees in defined contribution (DC) occupational pension schemes.
- In 2009, the average employer contribution rate for private sector DB occupational pension schemes was 16.5 per cent of salary, compared with 6.4 per cent for DC occupational pension schemes.
- Starting in 2012, a new system will be introduced where employers will have a duty to automatically enrol all eligible employees into a qualifying workplace pension and contribute on their behalf.
- Employers in DC occupational pension schemes with 12 or more members which are comparable in terms of contracting out status with qualifying DC pension schemes under the new system (not contracted out of the additional state pension) contributed 6.0 per cent of salary in 2009 – more than twice what they will have to contribute as a statutory minimum from October 2017.
- The 2010 Annual Survey of Hours and Earnings (ASHE) shows some differences in total contribution rates between male and female employees in DC occupational pension schemes that are not contracted out. However, the gender difference – with women doing less well than men – has narrowed since 2005 (Figure 8.5).
- At present, employers do not have to contribute to group personal pensions (GPPs) and stakeholder pensions. In smaller private sector employers (less than 100 employees), 6 per cent of employees with GPPs and 13 per cent of those with stakeholder pensions received no employer contribution in 2010 (Figure 8.9).
- Total contributions to personal and stakeholder pensions fell from £20.9 billion in 2007/08 to £18.7 billion in 2009/10 (Figure 8.11), largely due to a fall in the number of people contributing during the recession.
- Total contributions to private (non-state) pensions rose to £85.6 billion (6.1 per cent of GDP) in 2009, from £83.2 billion in 2008, driven by a recovery in employer contributions to funded occupational pension schemes after the recession (Figure 8.12 and Table 8.13).

This chapter looks at contributions to private (non-state) pensions. These comprise occupational schemes for private sector and public sector employees; and personal pensions, including group personal pensions and stakeholder pensions (see *Pension Trends* Chapter 6).

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) – and by contracting out status (see Glossary). In view of the Government's workplace pension reforms, due to be implemented between 2012 and 2017, it then looks in more detail at contributions to DC pension schemes that are comparable in terms of contracting out status with qualifying DC schemes in the reformed system (not contracted out of the additional state pension).

The chapter goes on to give an overview of contributions to public sector occupational pension schemes and to present evidence on contributions to individual and group personal pensions and stakeholder pensions. Finally, it analyses aggregate contributions for all private pension types. The chapter includes some information on numbers of scheme members paying contributions, but pension scheme membership is covered in more detail in *Pension Trends* Chapter 7.

Contribution levels alone do not provide a measure of pension adequacy. In DC schemes, also known as money purchase schemes, the pension also depends on the investment returns received while the contributions are invested in a pension fund (less charges) and, if an annuity is purchased, on the annuity market. In DB schemes, the scheme rules – in particular the accrual rate – determine the amount of pension that will be received.

There is considerable variation in the level of contributions between schemes, and in the balance between 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 extreme, 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 pension arrangements.

Around three-quarters of the cost and most of the risk of private sector DB occupational pension schemes falls on the employer¹, while with DC occupational pension schemes, the employee makes around one-third of total contributions and

carries the risk that the value of the pension will not be sufficient.

The amount of the employer contribution 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. The stock market decline in the early 21st century meant that some pension schemes were in deficit and employers had to make additional or special contributions. Such contributions may be in the form of lump sum payments, in which case they are not included in the following analyses of contribution rates.

Private sector occupational pension schemes

Changes in contribution rates over time can be examined by looking at the distribution of active members across contribution 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 DB to DC schemes (see *Pension Trends* Chapter 6). On average, contribution rates for DB schemes are higher than for DC schemes.

Employee contribution rates

Table 8.1 shows information on employee contribution rates from the 2009 Occupational Pension Schemes Survey (OPSS). The analysis excludes 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 2009. The analysis also excludes those that did not provide information on their contribution rates, fewer than 0.1 million members in 2009.

The total number of active members of private sector occupational pension schemes (excluding very small schemes and those without information on contribution rates) fell from 6.3 million in 1991 to 3.2 million in 2009. For 2009, the proportion of members in the lower contribution bands (under 5 per cent) was 29 per cent of the total – slightly higher than in 1991. However, over this period the main change was an increase in the proportion of members in the highest contribution band. In 1991, 30 per cent of active members were in the 5-6 per cent contribution band and 21 per cent in the '6 per cent and over' band. In 2009, the figures were 13 per cent and 42 per cent respectively.

Table 8.1

Active members of private sector occupational pension schemes: by employee contribution rates^{1,2,3}

United Kingdom													Millions
Percentage of salary	1975	1979	1983	1987	1991	1995	2000	2004	2005	2006	2007	2008	2009
Under 3%	0.7	0.5	0.4	0.4	0.3	0.6	0.5	0.3	0.3	0.3	0.3	0.2	0.2
3% to under 5%	1.0	1.0	1.1	1.0	1.3	1.6	1.0	0.9	0.8	0.7	0.6	0.8	0.7
5% to under 6%	1.6	2.2	1.8	1.8	1.9	1.8	1.7	0.9	0.9	0.7	0.6	0.5	0.4
6% and over	0.8	0.9	1.3	1.4	1.3	0.8	1.1	1.5	1.4	1.4	1.3	1.4	1.3
Non-contributory or other basis ⁴	1.8	1.5	1.2	1.2	1.3	1.1	0.8	0.9	0.9	0.5	0.6	0.6	0.5
Total	5.9	6.1	5.8	5.8	6.3	6.0	5.1	4.5	4.4	3.7	3.4	3.5	3.2

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.

Source: Occupational Pension Schemes Survey, Office for National Statistics

The long-term trend since 1991 has been a shift from the middle contribution band (5-6 per cent) into the higher contribution band (6 per cent and over). However, this trend was interrupted in the mid-1990s, when membership shifted into lower contribution bands: in 1995, 37 per cent of members were in the 'under 5 per cent' bands and only 14 per cent were in the '6 per cent and over' band, while 30 per cent were in the 5-6 per cent band. This may have been because by 1995, as equity markets recovered from the downturn of the early 1990s, DB pension schemes had more funds than they were allowed under taxation rules and therefore reduced employee (as well as employer) contributions.

The number of active members in schemes operating on a 'non-contributory or other' basis (normally fixed amount contributions) has fallen since 1991, roughly in line with the fall in total membership; 16 per cent of active members were in such schemes in 2009.

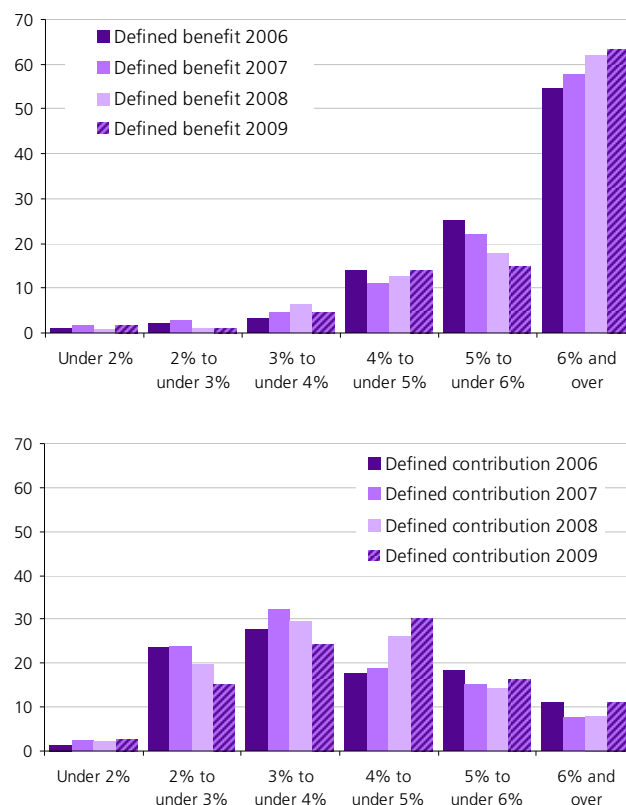
On average, regular contribution rates (excluding fixed amount payments) are higher for DB schemes than for DC schemes. The 2009 OPSS found that the average total contribution rate (employee plus employer contributions) for private sector DB occupational pension schemes was 21.7 per cent, while for DC schemes it was 9.3 per cent².

This section looks at employee contribution rates for private sector DB and DC schemes with 12 or more members. In 2009, according to results from the OPSS, the average employee in private sector DB schemes contributed 5.2 per cent of salary. For DC schemes, the average contribution rate was 2.9 per cent in 2009.

Figure 8.2

Distribution of active membership of private sector occupational pension schemes: by type of scheme and employee contribution rate^{1,2,3}, 2006 to 2009

United Kingdom
 Percentages



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.

Source: Occupational Pension Schemes Survey, Office for National Statistics

Figure 8.2 shows the breakdown by bands for 2006 to 2009. For DB schemes the most common rate for employee contributions was '6 per cent and over'; this band represented 63 per cent of active members in 2009 compared with 55 per cent in 2006. Although contribution rates were lower for DC schemes, between 2006 and 2009 there was a shift towards higher employee contribution rates for members of DC schemes. In 2006 and 2007, over half of active members had contribution rates in the lower-middle bands (2-3 and 3-4 per cent) while less than one-fifth were in the 4-5 per cent band. In 2009, 40 per cent were in the lower-middle contribution bands and 30 per cent were contributing at 4-5 per cent.

Employer contribution rates

In this section, we look at employers' regular contribution rates (excluding special contributions) for occupational pension schemes with 12 or more members using results from the OPSS. Special contributions can be significant for employers making good 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.

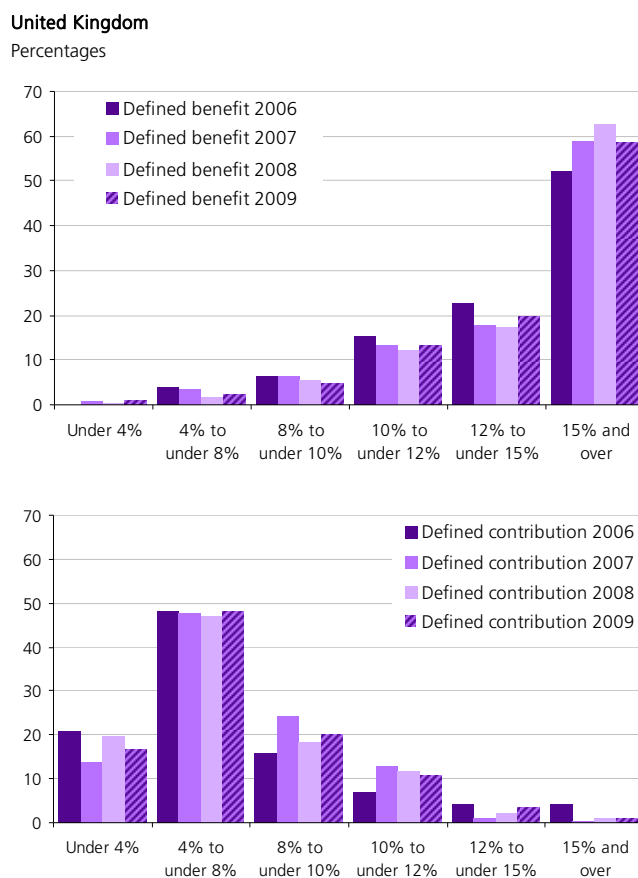
There is a marked difference between employer contribution rates in DB and DC pension schemes. In 2009, the average employer contribution rate for private sector DB occupational pension schemes was 16.5 per cent of salary. This compares with an average contribution rate of 6.4 per cent for DC schemes. Other things being equal, higher contribution rates will result in higher levels of benefit, although a small part of the difference is attributable to the different characteristics of the schemes and their members:

- DC schemes, and hence their active members, are less likely to be contracted out of the additional state pension (see below: Table 8.4). 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). It is too early to assess whether contribution rates will increase as their membership matures.

The distribution of active membership by level of employer contributions is shown in Figure 8.3. Most active members of private sector DB schemes enjoy high employer contribution rates; 78 per cent had employer contributions of 12 per cent

of salary or more in 2009. Between 2006 and 2008 there was an increase in the proportion with '15 per cent and over' employer contribution rates from 52 per cent to 63 per cent. However, in 2009 this proportion fell to 59 per cent. On the other hand, nearly half of active members of DC schemes were in the 4-8 per cent employer contribution rate band in 2006 to 2009, and the proportion with average employer contributions of 12 per cent of salary or more fell from 8 per cent in 2006 to 4 per cent in 2009.

Figure 8.3
Distribution of active membership of private sector occupational pension schemes: by type of scheme and employer contribution rate^{1,2,3}, 2006 to 2009



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.
Source: Occupational Pension Schemes Survey, Office for National Statistics

Contracting out

Most DB occupational pension schemes are contracted out of the additional state pension (the State Second Pension, S2P, formerly the State Earnings Related Pension Scheme, SERPS), but most DC occupational pension schemes are not contracted out. In 2009, 96 per cent of active contributing

Table 8.4

Active members of private sector occupational pension schemes: by employer contribution rate, type of scheme and contracting out status¹, 2008 and 2009

United Kingdom

Millions

	2008				2009			
	Defined Benefit		Defined Contribution		Defined Benefit		Defined Contribution	
	Contracted out	Not contracted out	Contracted out	Not contracted out	Contracted out	Not contracted out	Contracted out	Not contracted out
Contributions as % of salary								
Under 8%	0.0	0.0	0.1	0.6	0.1	0.0	0.1	0.5
8% to under 12%	0.4	0.1	0.1	0.2	0.3	0.1	0.1	0.2
12% to under 15%	0.4	0.0	0.0	0.0	0.4	0.1	0.0	0.0
15% and over	1.5	0.1	0.0	0.0	1.2	0.1
Non-contributory or other basis ²	0.1	0.0	0.0	0.0	0.1	0.0
Total	2.4	0.2	0.2	0.8	2.1	0.3	0.2	0.7

1 Excludes schemes with fewer than 12 members and non-respondents.

2 'Other basis' means contributions made other than as a percentage of salary. It 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.

Source: Occupational Pension Schemes Survey, Office for National Statistics

members of private sector DB schemes belonged to contracted out schemes, while 83 per cent of active contributing members of DC schemes were in schemes which were not contracted out³. The Pensions Act 2007 abolished the option for DC pension schemes to contract out of S2P, and this will come into effect in April 2012.

In theory, the relatively low employer contribution rates of DC schemes might be explained by the dominance of schemes which are not contracted out – because 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.

Table 8.4 shows that to some extent this is the case. However, the 'not contracted out' status of the majority of DC schemes does not fully explain their lower employer contribution rates. In not contracted out DC schemes, 73 per cent of active members received employer contributions of less than 8 per cent in 2009. By contrast, 35 per cent of active members of contracted out DC schemes received employer contributions of less than 8 per cent in 2009, while 65 per cent received 8 per cent and over. Nevertheless, this still compared badly with contracted out DB schemes, where 97 per cent of active members received 8 per cent and over and 60 per cent received 15 per cent and over.

On average, OPSS estimates that the employer contribution rate for not contracted out DC schemes in 2009 was 6.0 per cent, compared with 7.9 per cent for contracted out DC schemes and 17.0 per cent for contracted out DB schemes.

Workplace pensions reforms and NEST

Under the Pensions Act 2008, a system will be introduced from 2012 under which employers will have a duty to automatically enrol all eligible employees into a qualifying pension scheme and to make contributions on their behalf. The system will be introduced gradually. In order to qualify, between October 2012 and September 2016 DC schemes will have to have contributions of at least 2 per cent on a band of earnings, of which at least 1 per cent must come from the employer. From October 2016 to September 2017 the minimum contribution will be 5 per cent, of which at least 2 per cent must come from the employer; and from October 2017 it will be 8 per cent, of which at least 3 per cent must come from the employer.

As many employers do not have pension schemes, or have schemes which do not cover all of their employees, the Pensions Act 2008 made provision for the creation of a new DC occupational pension scheme: the National Employment Savings Trust (NEST), formerly known as 'personal accounts'. NEST will meet the qualifying scheme standards and will be available for those without a scheme. It will not be contracted out of S2P, in line with the legislation abolishing contracting out for DC schemes which comes into effect in April 2012.

It is of interest to look at current contribution rates for DC occupational pension schemes that are not contracted out of the additional state pension, as this group is broadly comparable with the new NEST scheme. However, it should be borne in mind when making such comparisons that some of the characteristics of contributors in the new NEST scheme (and in other 'not contracted out' DC schemes under the workplace pension reforms) may be different from those in current DC pension schemes that are not contracted out. Thus, all comparisons should be treated with caution.

In 2009, according to the OPSS, the average total contribution rate for regular contributions to DC occupational pension schemes with 12 or more members that were not contracted out of the additional state pension was 9.1 per cent, comprising 6.0 per cent employer contributions and 3.1 per cent employee contributions. OPSS contribution rates are expressed as a percentage of gross salary excluding bonuses, while the minimum contribution rates for the NEST scheme and other qualifying DC pension schemes under the new system are expressed as a percentage of a band of earnings including bonuses. This makes direct comparison difficult. However, it is possible to calculate examples of contribution rates as a proportion of gross salary under the new system⁴, allowing broad comparison with the 2009 OPSS results.

Such comparisons suggest that employees in DC occupational pension schemes with 12 or more members, which were comparable in terms of contracting out status to NEST and other DC schemes under the new system, contributed at a similar rate in 2009 (on average) as they would in a scheme with minimum contributions under the new system, once it is fully implemented. On the other hand, employers contributed more than twice what they would have to contribute as a minimum under the new system from October 2017.

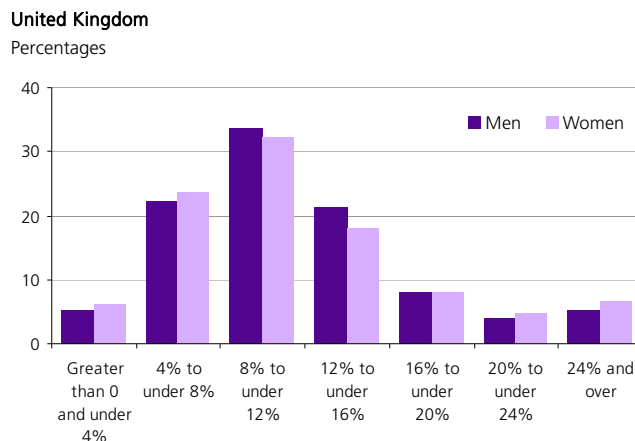
There has been much discussion about how the Pensions Act 2008 will impact on existing provision. The reforms are designed to expand coverage of pensions to more people of working age. DWP estimates that as a result of the reforms, between 5 million and 8 million people will save in workplace pensions for the first time or will save more than before in workplace pensions; these estimates are not classed as National Statistics.

However, some commentators have expressed concern that employers may reduce the contributions that they pay into pension schemes, particularly for those who are already members of schemes. This is referred to as 'levelling down'. It could happen as the reforms are introduced, or in the years leading up to their introduction.

In the remainder of this section and in the section (below) on employer-sponsored personal pensions, we use data on total contribution rates from the Annual Survey of Hours and Earnings (ASHE) to show the current distribution of contribution rates by factors associated with individual scheme members such as sex, age, occupation, amounts earned and type of pension. In coming years – at and after the introduction of the reforms – it will be interesting to note any changes in these contribution patterns, firstly to see if there are increases in contribution rates for certain groups, such as those on low incomes, and secondly to detect any evidence of levelling down. 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.

ASHE is a good source of data on contribution patterns because it collects information at individual level (by contrast with 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 (shown above). This is because ASHE includes small numbers of individuals making large lump-sum contributions, while the OPSS figures are based on regular contributions made as a percentage of salary only, excluding fixed amount payments and employer special contributions.

Figure 8.5
Distribution of employee members of private sector defined contribution occupational pension schemes not contracted out of the additional state pension: by sex and total contribution rates^{1,2,3}, 2010



- 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.

Source: Annual Survey of Hours and Earnings, Office for National Statistics

The 2010 ASHE 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 (Figure 8.5). In 2010, the most common contribution rate for men and women was 8-12 per cent of earnings. A higher proportion of women contributed at the lower contribution rates (under 8 per cent), with 30 per cent of women compared with 27 per cent of men contributing at this level. However, there was also a higher proportion of women than of men contributing at the highest contribution rates (20 per cent and over): 12 per cent of women compared with 9 per cent of men. The reasons for these differences in contribution rates are complex; contributing factors include different employment patterns, distribution of earnings and age of the employee. However, equivalent charts for previous years – from 2005 onwards – which can be downloaded by clicking on Figure 8.5 in this pdf, show that the gender difference (with women doing less well than men) has narrowed over time.

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 rules⁵. 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 8.6 shows some evidence of this for DC schemes not contracted out of the additional state pension: the older age groups represent a greater proportion than the younger ones in most

of the high contribution bands (16-20 per cent, 20-24 per cent, and 24 per cent 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 per cent band). This may be because older employees who are nearing retirement are more likely than younger employees to make large lump-sum (or regular) contributions. However, the relationship does not appear to be a strong one. In fact, the evidence in Figure 8.6 suggests that most employees in schemes that are not contracted out of the additional state pension contribute at similar rates irrespective of age.

Some caution should be exercised in interpreting these results, however, as 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 the data on contribution rates is not available before 2005.

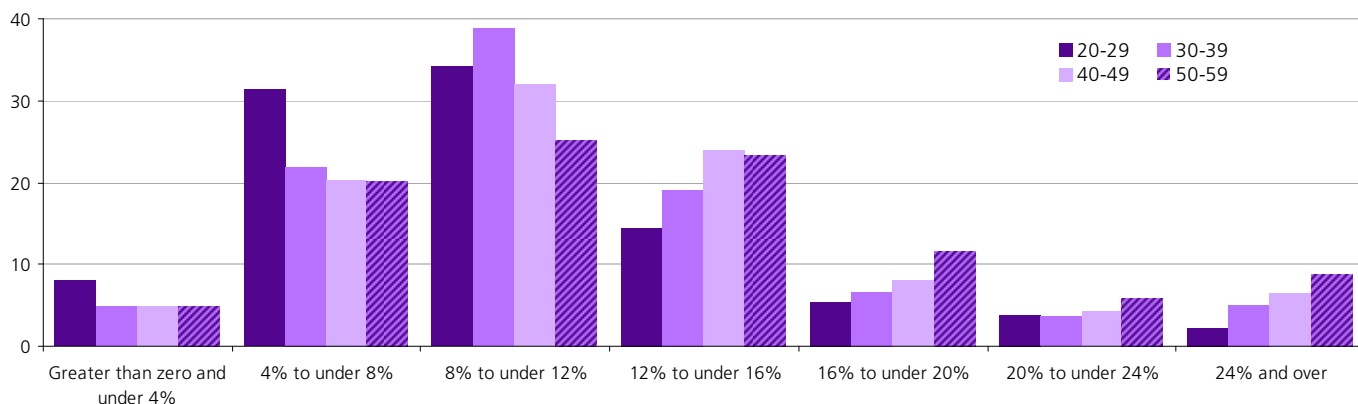
The impact of people’s occupations on contribution rates is shown in Table 8.7, which shows the distribution of members of DC occupational pension schemes that are not contracted out of the additional state pension, classified by Standard Occupational Classification⁶ and their total contribution rates.

Figure 8.6

Distribution of employee members of private sector defined contribution occupational pension schemes not contracted out of the additional state pension: by age and total contribution rates^{1,2,3}, 2010

United Kingdom

Percentages



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 AVCs by employees.

Source: Annual Survey of Hours and Earnings, Office for National Statistics

Table 8.7

Distribution of employee members of private sector defined contribution occupational pension schemes not contracted out of the additional state pension: by occupation and total contribution rates^{1,2,3,4}, 2010

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 and senior officials	4	15	31	24	11	5	10	
Professional	4	19	37	23	8	4	5	
Associate professional and technical	4	25	35	20	7	4	5	
Administrative and secretarial	5	19	35	16	8	8	9	
Skilled trades	8	27	39	17	6	x	x	
Personal service	x	x	32	46	x	0	0	
Sales and customer service	10	45	24	10	8	x	x	
Process, plant and machine operatives	9	34	29	22	x	x	x	
Elementary	11	29	32	18	6	x	x	
All occupations	6	23	33	20	8	4	6	

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 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.

Source: Annual Survey of Hours and Earnings, Office for National Statistics

In 2010, employees in sales and customer service had the lowest contribution rates: 55 per cent of scheme members in this occupational category had total contributions of less than 8 per cent of earnings, compared with 28 per cent for all occupations (Table 8.7). Managers and senior officials had the most generous total contribution rates: 26 per cent had total contributions of 16 per cent or more in 2010, and only 19 per cent had total contributions of less than 8 per cent.

Table 8.8

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 contribution rates^{1,2,3,4}, 2010

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	9	36	21	11	12	x	7
£200 to under £300	9	32	31	14	5	x	7
£300 to under £400	8	30	35	15	4	4	4
£400 to under £500	6	27	34	18	5	4	4
£500 to under £600	6	27	33	20	7	3	4
Over £600	4	16	34	24	10	5	7

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 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.

Source: Annual Survey of Hours and Earnings, Office for National Statistics

The impact of different earnings levels is shown in Table 8.8. As in previous years⁷, in 2010 employees with higher earnings tended to have higher total pension contribution rates. More than two-fifths of employees earning over £600 per week had total contribution rates of 12 per cent of earnings or more and 19 per cent had total contribution rates of less than 8 per cent. By contrast, 41 per cent of employees earning £200-300 per week and 46 per cent of those earning under £200 per week had rates of less than 8 per cent.

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, armed forces, National Health Service (NHS), teachers, Local Government Pension Scheme for local authority employees (LGPS), 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 Glossary).

Recently, many public sector pension schemes have made changes to their employee contribution rates. The key changes are:

- **Civil service:** Since 2002, new members have contributed 3.5 per cent of pensionable pay; a large closed group of members still contribute 1.5 per cent.

- **Armed forces:** The scheme remains non-contributory for employees, although the value of the pension is taken into account when assessing pay levels.
- **NHS:** Since 1 April 2008, members have contributed between 5 and 8.5 per cent of pensionable pay depending on salary, although until the end of the 2008/09 financial year manual workers continued to contribute at 5 per cent. Previously, members contributed 6 per cent (5 per cent for manual workers).
- **Teachers:** Since 1 January 2007, all members have contributed 6.4 per cent (increased from 6 per cent).
- **Police:** Since 6 April 2006, new members have contributed 9.5 per cent of pensionable pay. A closed group of members contribute 11 per cent.
- **Firefighters:** Since 6 April 2006, new members have contributed 8.5 per cent of pensionable pay. A closed group of members contribute 11 per cent.
- **LGPS (England and Wales):** Since 1 April 2008, members have contributed from 5.5 per cent to 7.5 per cent of pensionable pay depending on salary (changed from a standard 6 per cent rate). For members who had a 'protected rate' of 5 per cent before April 2008, the changes are being phased in gradually up to April 2011.
- **LGPS (Scotland):** Since 1 April 2009 all active members have paid a contribution rate of between 5.5 and 12 per cent depending on salary.

It should be noted that these figures are not classed as National Statistics.

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

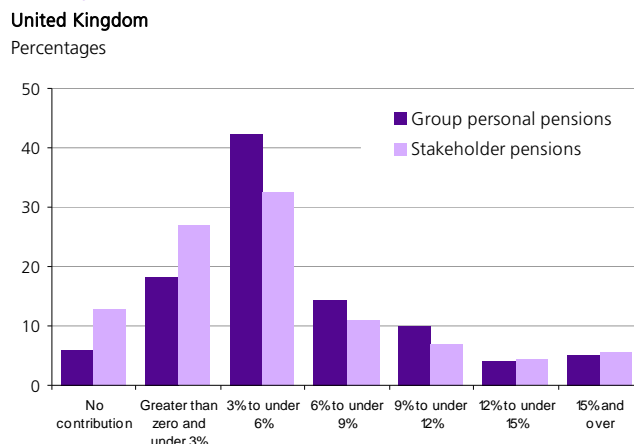
Personal pensions (which include stakeholder pensions) are those where individuals enter into a contract with a pension provider, usually an insurance company (see *Pension Trends* Chapter 6). They may be taken out on an individual basis or arranged on a 'group' basis (usually facilitated by employers,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

Employer contributions

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 a 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. 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.

Figure 8.9
Distribution of employee members of private sector group personal pensions and stakeholder pensions where employer has less than 100 employees: by employer contribution rates^{1,2} 2010



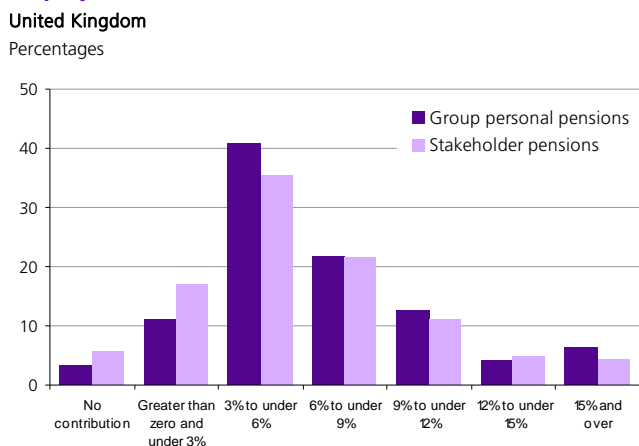
1 Pension is arranged through an employer, main pension only.
 2 Contributions include one-off fixed amount payments, but exclude employer contributions covering more than one employee.

Source: Annual Survey of Hours and Earnings, Office for National Statistics

Figures 8.9 and 8.10 show the proportion of GPP and stakeholder pension members by employer contribution rate for private sector employers with less than 100 employees and for employers with 100 or more employees respectively in 2010. There was a clear difference between the two: in smaller employers, 34 per cent of those with GPPs and 28 per cent of those with stakeholder pensions had employer contribution rates of 6 per cent and over; whereas in larger employers, 45 per cent of those with GPPs and 42 per cent of those with stakeholder pensions had employer contribution rates of 6 per cent and over.

In group personal pension schemes, employer contributions are not mandatory at present (although this will change as a result of the workplace pension reforms to be implemented from 2012, as employers will have a duty to automatically enrol all eligible workers and contribute on their behalf). In smaller employers (Figure 8.9), 6 per cent of those with GPPs and 13 per cent of those with stakeholder pensions received no employer contribution in 2010; this compares with 3 per cent and 6 per cent respectively for larger employers (Figure 8.10).

Figure 8.10
Distribution of employee members of private sector group personal pensions and stakeholder pensions where employer has 100 employees or more: by employer contribution rates^{1,2} 2010



- 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.

Source: Annual Survey of Hours and Earnings, Office for National Statistics

Total contributions

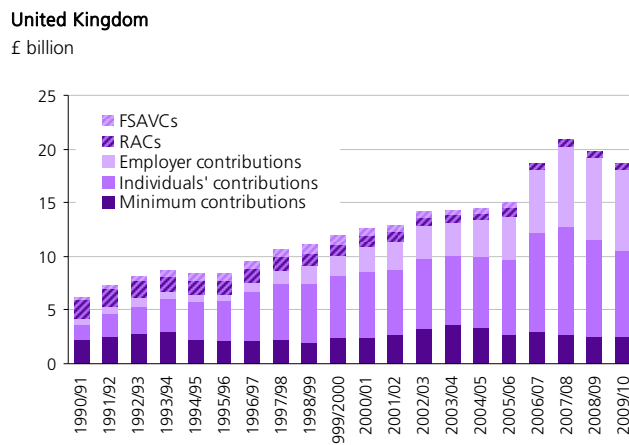
HM Revenue and Customs (HMRC) has recently published estimates of the number of people making contributions to personal and stakeholder pensions (both individual and group pensions) in 2008/09, and average amounts contributed. HMRC has also published revised figures for 2007/08⁸.

The total number of people making contributions to personal and stakeholder pensions in 2008/09 was estimated to be 6.4 million, of which 5.5 million were employees, 0.8 million were self-employed people and 0.1 million were 'others' (children, people in full-time education, carers, the unemployed and those in receipt of a pension). There were fewer people contributing in 2008/09 than the previous year, when there were an estimated 7.6 million contributors (see Pension Trends Chapter 6).

However, the average contribution per person was higher in 2008/09 than in 2007/08: £3,010 compared with £2,660. For employees, the average contribution in 2008/09 was £2,980, up from £2,520 in 2007/08; but for the self-employed, the average contribution was £3,270 in 2008/09, down from £3,570 in 2007/08.

For the self-employed, individual personal and stakeholder pensions are currently the main alternative for private pension saving, as they cannot join occupational pension schemes or group personal pension schemes⁹. The self-employed also rely more on private pensions than employees as they do not have access to the additional state pension.

Figure 8.11
Contributions to personal and stakeholder pensions by contribution type (minimum, employer or individual) and to RACs and FSAVCs^{1,2,3,4,5,6}, 1990/91 to 2009/10



- 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. Figures for 2008/09 and 2009/10 RACs are projections and therefore provisional.
- 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 HMRC collects limited information on self invested personal pensions (SIPPs) but at present it is not separately identifiable.

Source: HM Revenue and Customs

The total value of contributions paid into personal and stakeholder pensions, retirement annuity contracts (RACs) and freestanding additional voluntary contributions (FSAVCs) is shown in Figure 8.11. Contributions to personal and stakeholder pensions consist of minimum contributions (see below), contributions by employers and individuals (employees, the self-employed and non-earners). 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 (see above). They were estimated at £18.7 billion in 2009/10.

Employer contributions have seen increases in most years, reaching £7.6 billion in 2009/10 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 and £8.0 billion in 2009/10.

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 represent the rebate paid by HMRC to individuals who have used their personal or stakeholder pension to contract out of the additional state pension. Minimum contributions reached a peak of £3.0 billion in 1993/94 and then declined before rising in the first few years of the 21st century to a new peak of £3.6 billion in 2003/04; in 2009/10 they were £2.6 billion. The formula used to calculate minimum contributions changed in 1993/94 and again in 1998/99. Year on year comparisons may also be affected by changes in the time taken to process payments.

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 higher levels of tax relief available in any one year after A-day may partly explain the 39 per cent increase in total contributions to personal and stakeholder pensions between 2005/06 and 2007/08, from £15.0 billion to £20.9 billion.

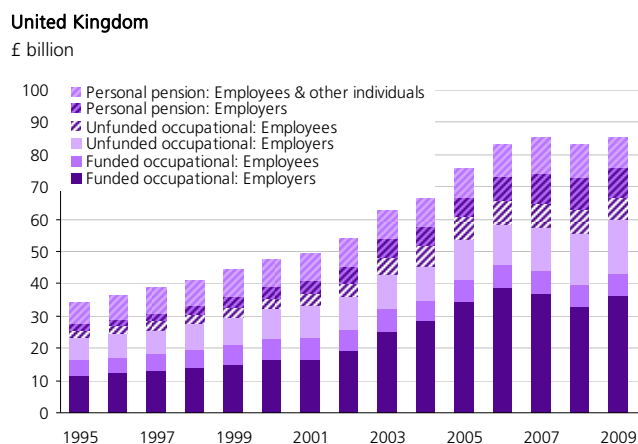
Aggregate pension contributions

Figure 8.12 and Table 8.13 show the total amount of aggregate contributions to private (non-state) pension schemes broken down into contributions to funded and unfunded occupational pension schemes and personal pensions. Most public sector pension schemes – for the civil service, armed forces, NHS, teachers, police and firefighters –

are unfunded. Funded occupational pension schemes are found mainly in the private sector. The main exception is the LGPS – the only major public sector scheme that is funded.

Figure 8.12 and Table 8.13 use a methodology described in the article *Private pension contributions: updated estimates 1995-2007* (see **Sources and further reading**). The latest estimates – which are not National Statistics – are published below. The source for contributions to unfunded schemes is the UK National Accounts, published in the Office for National Statistics (ONS) *Blue Book*. Information on contributions to funded schemes comes from the ONS series *MQ5: Investment by insurance companies, pension funds and trusts* and – for insurance-managed schemes – from the Association of British Insurers (ABI). The ABI data excludes contributions made as single premiums, which are difficult to estimate¹⁰. Estimates of contributions to personal pensions are based on HMRC data for personal and stakeholder pensions, RACs and FSAVCs.

Figure 8.12
Aggregate contributions to private pensions^{1,2,3}, 1995 to 2009



- 1 For insurance-managed funded occupational pension schemes, the division of contributions between employers and employees is estimated.
- 2 Contributions to funded occupational schemes do not include contributions made as single premiums.
- 3 Contributions to personal pensions do not cover contributions made to self-invested personal pensions (SIPPs).

Source: Office for National Statistics, Association of British Insurers and HM Revenue and Customs

Total contributions to private pensions were £34.2 billion (4.7 per cent of GDP) in 1995. They rose every year between 1995 and 2007 (Figure 8.12), growing particularly strongly between 2001 (£49.6 billion) and 2006 (£83.4 billion). They fell from £85.3 billion in 2007 to £83.2 billion in 2008, at the start of the recession, but recovered in 2009 to reach a new high of £85.6 billion (6.1 per cent of GDP).

Table 8.13 presents the data used for Figure 8.12, focusing on the period 2001 to 2009. Much of the impetus for the strong growth in the five years to 2006 came from employer contributions to funded occupational pension schemes, which rose from an estimated £16.5 billion in 2001 to £38.7 billion in 2006. This was likely to have been associated with the requirement to finance deficits in private sector DB pension schemes. There was also strong growth in employer contributions to personal pensions in 2006 and 2007.

Estimates of employer contributions to funded occupational pension schemes fell to £37.0 billion in 2007 as many private sector DB schemes moved into surplus, and then fell sharply in 2008, to £32.7 billion, as company finances came under pressure at the start of the recession (see *Pension Trends* Chapter 9). However, they rose strongly in 2009, to £36.3 billion, and were the main driver behind the recovery in total contributions to private pensions.

Employer contributions to unfunded occupational pension schemes rose from an estimated £13.5 billion in 2007 to £15.9 billion in 2008 and £16.7 billion in 2009.

The recession also affected contributions to personal pensions by employees and other individuals. These are estimated to have fallen from £11.2 billion in 2007 to £10.4 billion in 2008 and £9.3 billion in 2009. On the other hand, employer contributions to personal pensions continued to increase in 2008, reaching £9.7 billion, more than double their 2001 level (£4.4 billion); they remained at this level in 2009.

Table 8.13

Aggregate contributions to private pensions by type of pension and source of contribution, 2001 to 2009

United Kingdom		£ billion									
		2001	2002	2003	2004	2005	2006	2007	2008	2009	
Funded occupational schemes^{1,2}		23.2	25.9	32.1	34.5	41.2	45.9	44.0	39.7	42.9	
of which:											
employers		16.5	19.2	25.4	28.7	34.4	38.7	37.0	32.7	36.3	
employees		6.7	6.7	6.7	5.8	6.8	7.2	7.0	7.1	6.6	
Unfunded occupational schemes		13.6	14.5	16.1	17.4	19.6	19.9	21.0	23.3	23.7	
of which:											
employers		10.1	10.3	10.8	11.0	12.5	12.6	13.5	15.9	16.7	
employees		3.5	4.2	5.3	6.4	7.0	7.3	7.5	7.4	6.9	
Personal pensions³		12.9	13.9	14.3	14.4	14.9	17.6	20.3	20.1	19.0	
of which:											
employers		4.4	5.1	5.8	6.0	6.1	7.6	9.1	9.7	9.7	
employees and other individuals		8.4	8.8	8.5	8.4	8.7	10.0	11.2	10.4	9.3	
Total contributions		49.6	54.2	62.5	66.3	75.6	83.4	85.3	83.2	85.6	
of which:											
employers		31.0	34.6	42.0	45.7	53.1	58.9	59.7	58.3	62.7	
employees and other individuals		18.6	19.7	20.5	20.6	22.5	24.5	25.6	24.9	22.9	

- 1 For insurance-managed funded occupational pension schemes, the division of contributions between employers and employees is estimated.
- 2 Contributions to funded occupational schemes do not include contributions made as single premiums.
- 3 Contributions to personal pensions do not cover contributions made to self-invested personal pensions (SIPPs).

Source: Office for National Statistics, Association of British Insurers and HM Revenue and Customs

References

- 1 The proportions given here are based on the average contribution rates presented in the following sections.
- 2 For further details, see Office for National Statistics (2009) (**Sources and further reading**), Chapter 3. All averages are weighted averages, as explained in Chapter 3 of the report.
- 3 Office for National Statistics (2009) (see **Sources and further reading**), Chapter 3.
- 4 For instance, median gross earnings including bonuses for a full-time male employee in 2008/09 were £28,300 according to the Annual Survey of Hours and Earnings (ASHE). In this case, the employee contribution rate under the new system as a percentage of gross salary would have been 3.1 per cent, while the employer contribution rate would have been 2.4 per cent. Median gross earnings including bonuses for a full-time female employee in 2008/09 were £22,100 according to ASHE. In this case, the employee contribution rate under the new system as a percentage of gross salary would have been 2.9 per cent, while the employer contribution rate would have been 2.2 per cent.

These calculations assume that the lower limit of the band of earnings under the new system would have been £6,035 in 2008/09 (equivalent to HMRC's personal allowance for people under 65); this is an assumption, given that there has not yet been an official announcement of the qualifying earnings band. The calculations also assume that employees and employers contribute at the statutory minimum rates; they could in fact contribute more. Comparisons with OPSS should be treated with caution, as OPSS reports on regular contributions as a percentage of gross salary excluding bonuses.
- 5 In 2009, 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.
- 6 The analysis uses Standard Occupational Classification 2000. For further information see www.ons.gov.uk/ons/guide-method/classifications/archived-standard-classifications/standard-occupational-classification-2000/about-soc-2000/index.html
- 7 For 2005 to 2009 data, click on the 2010 table in this pdf and download the spreadsheet, which contains previous years' data.
- 8 For further information, see www.hmrc.gov.uk/stats/pensions/changes-july11.htm
- 9 However, from the end of 2011, the self-employed will be able to join NEST (an occupational scheme).
- 10 See Miller (2009) for further details of the estimation problems.

Sources and further reading

- Association of British Insurers (ABI, 2011), Annual Long-term Insurance Overview Statistics, updated May 2011, Table 1: UK long-term insurance net premium income, 2005-2009
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