



eeef

The manufacturers' organisation

AON

The EEF/Aon Consulting
2004 Pensions Survey

Autumn 2004

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Contents

Introduction	2
Executive Summary	3
Pension provision in manufacturing	5
EEF members' views on employee and employer pensions compulsions	7
Retirement arrangements	10

Introduction

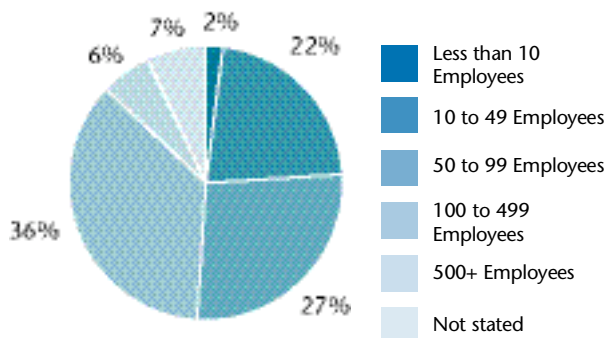
This Survey of the views of EEF member companies on various current pension policy and retirement age issues was undertaken by EEF, the manufacturers' organisation, in conjunction with Aon Consulting during September 2004.

Since some of the questions in this Survey were identical to those asked in both the 1998 and 2002 EEF/Aon Consulting Pensions Surveys, these results are not only a "snap shot" of the current position but also provide an indication of the changes in EEF members' views and their pension arrangements that have taken place over the last 6 years.

The Survey questionnaire was sent to senior managers and pensions specialists in all EEF member companies including members of ECIA (the Engineering Construction Industries Association). The number of companies that completed and returned the questionnaire was 529, just over 10% of the questionnaires that were distributed. These responses were from a broad cross-section of EEF membership in the UK and covered all sizes of organisations.

Figure 1

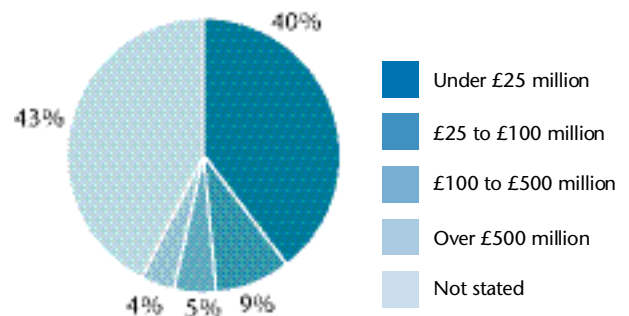
Size of company – % of respondents by size of company



As with both the 1998 and 2002 Surveys, more than 90% of the responses (94%) came from companies that currently provide occupational pension arrangements for some or all of their employees. The size of funds under management in these companies was wide-ranging although some 40% of them are currently valued at under £25m.

Figure 2

Size of pension fund – % of respondents by size of pension fund under management



Executive Summary

Many manufacturing companies have been providing occupational pension arrangements for their employees on a voluntary basis for a number of years. They recognise that these pension arrangements are an integral part of the benefit package that they can use to attract, motivate and retain their employees and that these arrangements continue to play an important role in today's labour market.

The findings from this Survey show that manufacturing companies now have a range of occupational pension arrangements. It is also clear that a number of financial pressures, together with the fact that we are all now living longer, have caused many manufacturers to review the type and extent of the pension provision that they can afford to provide for their employees if they are to retain a viable business. Whilst some of them have still felt able to retain their defined benefit pension scheme, others have found the financial pressures of continuing to provide this type of scheme to have been so intense that they have had to introduce alternative pension arrangements for their employees.

There is some evidence that amongst manufacturing companies who already provide occupational pension arrangements for their employees, there is now a growing sense that, to ensure fairer competition, there should be more of a "level playing field" for employer pension provision. The Survey shows that more of these employers – particularly small and medium size companies – now feel that both employers and employees should have to make a compulsory pension contribution over and above current National Insurance levels than when we first asked this question in 1998.

The Survey's results also confirm that there is strong demand from manufacturers for the Government to set a standard retirement age of 65 when age discrimination legislation is introduced in October 2006. The evidence that a relatively high number of manufacturing companies now have some full-time or part-time employees over 65 shows that they are agreeing voluntary arrangements with their older employees that are felt to be mutually beneficial. The Government should build on this voluntary approach by creating the necessary culture change in the workplace that will encourage the employment of older workers, rather than introduce legislation in a way that will inevitably create complex and expensive problems for employers.

The principal findings from this Survey are:-

- A range of occupational pension arrangements are provided by manufacturing companies and, although defined benefit/final salary schemes are still the most common arrangement, the incidence of defined contribution or group personal pension arrangements has grown steadily since 1998.
- As in both 1998 and 2002, the main reason why manufacturing companies provide occupational pension arrangements for their employees is "employee welfare".
- The rapid acceleration in the number of manufacturing companies that have closed their final salary scheme to new or existing members that occurred during 2002 and 2003 would appear to have slowed down in 2004. However, part of the reason for this is that there are now fewer schemes that are left to be closed.

- Although three-quarters of respondents have now closed their final salary scheme to new members and generally replaced this with some form of money purchase arrangement, far fewer of them have closed their scheme to existing members.
- The number of occupational pension schemes that are contracted out continues to be declining.
- The major concern that manufacturing companies have about the future of their occupational pension arrangements is “reduced investment returns leading to increased costs”.
- As in 2002, just over three-quarters of the respondents felt that all employees should have to make a compulsory minimum pension contribution over and above current National Insurance (NI) levels, with this level of support being very similar for all sizes of employers.
- Since 1998, the percentage of respondents who felt that all employers should have to make a compulsory pension contribution over and above current NI levels has increased from a half to just over two-thirds of them with this increased level of support particularly evident amongst small and medium size companies. Since over 90% of the respondents are already providing some type of occupational pension arrangement for their employees, this increased level of support for employer pension compulsion probably demonstrates a growing sense that to ensure fairer competition, there needs to be more of a “level playing field” in terms of employer pension provision.
- A quarter of all respondents had some full-time employees over 65 and nearly a third of them had some part-time employees over 65. Whilst large employers were more likely to have full-time employees over 65, they were less likely to have part-time employees over 65.
- Nearly two-thirds of manufacturing employers felt that the Government should set a standard retirement age of 65 when age discrimination legislation is introduced in October 2006. Only a quarter of them supported having a standard retirement age of 70 and even fewer felt that no standard retirement age should be set by the Government.
- Nearly nine out of ten of those who responded felt that the retirement age for both men and women should remain at 65 after 2020.

1 Pension provision in manufacturing

Type & extent of pension provision

The vast majority of all respondents (94%) stated that they provide occupational pension arrangements for some or all of their employees. A variety of different types of pension arrangements are currently being provided by EEF members and a number of them provide more than one type of scheme for their employees. This is particularly the case for those employers who have closed their defined benefit or final salary occupational pension scheme to new members and/or to existing members.

Table 1
Type and extent of pension provision

Type of Scheme	Executive %	Management %	Staff %	Manual %
Defined Benefit	38 (45)	39 (47) [52]	38 (45) [44]	33 (41) [41]
Defined Contribution	39 (32)	30 (34) [33]	29 (33) [21]	26 (31) [25]
Combination of Defined Contribution & Defined Benefit	2 (5)	2 (5) [13]	2 (4) [4]	2 (4) [2]
Group Personal Pension Scheme	26 (20)	30 (26) [24]	31 (28) [20]	27 (26) [16]
Stakeholder Pension with Employer Contribution	16 (8)	18 (10)	19 (14)	19 (15)

2002 figures in () 1998 figures in []

The most common form of occupational pension arrangement that is provided by EEF members is still a defined benefit pension scheme. However, the percentage of companies providing this type of scheme for their employees has declined steadily since 1998. In contrast, the percentage of companies providing either a defined

contribution or a group personal pension scheme has grown steadily over the same period. It is also interesting to note that the percentage of companies providing a stakeholder pension scheme to which they make an employer contribution has risen slightly since 2002.

Reason for having or not having an occupational pension scheme

Responses from EEF members with occupational pension arrangements showed that, as in both 1998 and 2002, the main reason why they provide these arrangements for their employees is "employee welfare" with nearly half (46%) making this response. The next most common reason (21%) was that these arrangements had been in existence for many years and could not easily be discontinued.

Table 2

Principal reasons why employers provide occupational pension schemes

1. Employee welfare
2. Scheme could not easily be discontinued
3. Retention
4. Labour market competitive pressures
5. Enables retirement on reasonable pension at the employer's convenience.

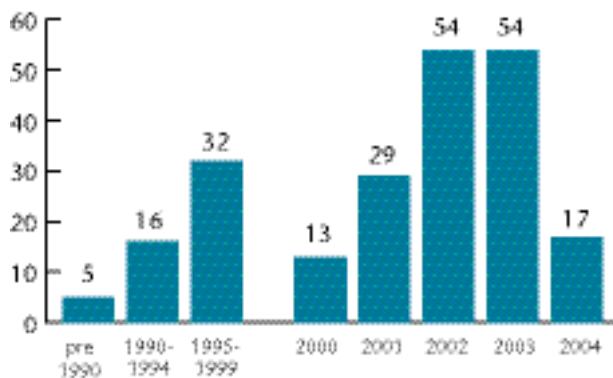
The very small number of EEF members without any form of occupational pension arrangements for their employees who responded to this Survey stated that the main reason for not doing so was that they felt "it is the responsibility of employees to provide themselves with a pension".

Closure of final salary schemes

The responses to the Survey showed that nearly two-thirds of the employers with final salary schemes who responded (64%) had now closed their final salary scheme to new members. However, 125 employers stated that their final salary scheme was still open to new members.

Figure 3

Date of closure of final salary scheme to new members – number of respondents



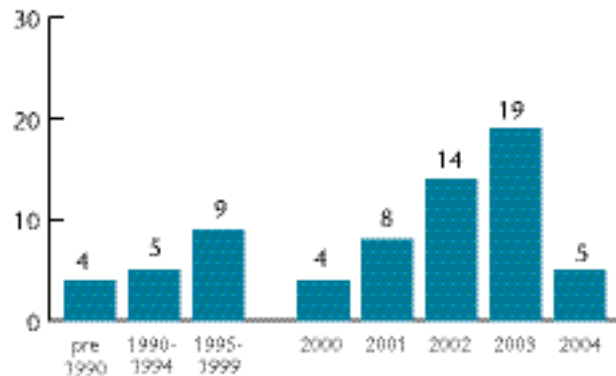
Whilst there would appear to have been some slowing down in the rate of closure in 2004 from the high levels in 2002 and 2003, part of the reason is that there are now fewer final salary schemes left to be closed to new members. When asked why they had decided to close their final salary scheme to new members, the most common response was “reduced investment returns” with nearly three-quarters of respondents giving this as their main reason.

Where final salary schemes have been closed to new members, the vast majority of employers have replaced them with some form of money purchase arrangement. However, there is some evidence that a few employers have introduced either cash balance or career average schemes as an alternative to their final salary scheme rather than moved to a defined contribution arrangement.

The majority of employers with final salary schemes reported that their scheme was still open to existing members with only just over a third (35%) having closed their scheme to existing members. The relatively high rate of closure to existing members that occurred in 2002 and 2003 seemed also to have slowed down in 2004.

Figure 4

Date of closure of final salary scheme to existing members – number of respondents



Contracting out

Contracting out is continuing to decline. Almost two-thirds (64%) of respondents indicated that their largest scheme, whether it was open or closed to new members, was contracted out. However, just under half (48%) of respondents stated that their main scheme that was open to new members was contracted out.

Concerns about the future

Looking forward, the main concern that companies with an occupational pension scheme reported was “reduced investment returns leading to increased costs” followed by “the possibility of increased legislative requirements leading to additional administrative costs”.

Table 3

Factors which cause employers concern for the future

1. Reduced investment returns leading to increased costs
2. The possibility of increased legislative requirements leading to additional administrative costs
3. Current administrative costs
4. Possibility of greater employee trustee involvement in the management of their company’s pension scheme

2 EEF members' views on employee and employer pensions compulsion

In this Survey EEF members were asked a number of questions on whether all employees and all employers should have to make a compulsory minimum pension contribution over and above current National Insurance (NI) levels. These questions were identical to ones that were asked in the 1998 and 2002 Surveys so that, in addition to having a “snap shot” of their views on employee/employer pensions compulsion, this Survey shows how these views have changed since 1998.

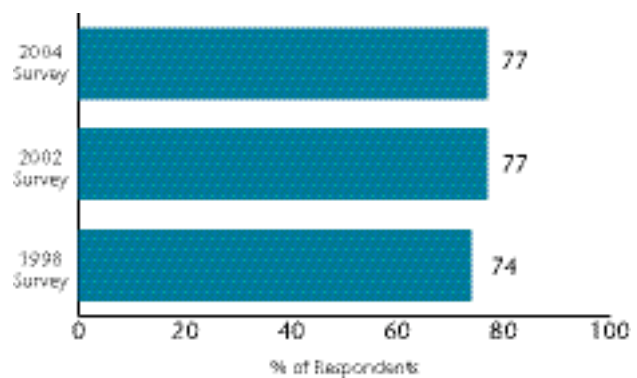
In examining these responses, it is very important to note that the vast majority of the responses (94%) to this Survey, as with the Surveys undertaken in 1998 and 2002, were from employers who currently provide some form of occupational pension arrangement for their employees. These results are therefore to a very large extent the views on employee/employer pensions compulsion of employers who already provide occupational pension arrangements for their employees.

Employee pensions compulsion

Just over three-quarters of the employers who responded (77%) felt that all employees should have to make a compulsory minimum pension contribution over and above current NI levels. This level of support for employee compulsion was exactly the same figure as in 2002 and slightly higher than in 1998 when it was supported by 74% of those who responded.

Figure 5

Support for compulsory employee contributions – all employers



There was very little difference in the level of support for employee compulsion demonstrated by employers of different sizes in 2004 with it being 80% for those with less than 50 employees, 76% for those with 50 to 499 employees and 79% for those with 500 and more employees.

Figure 6

Support for compulsory employee contributions – employers with less than 50 employees

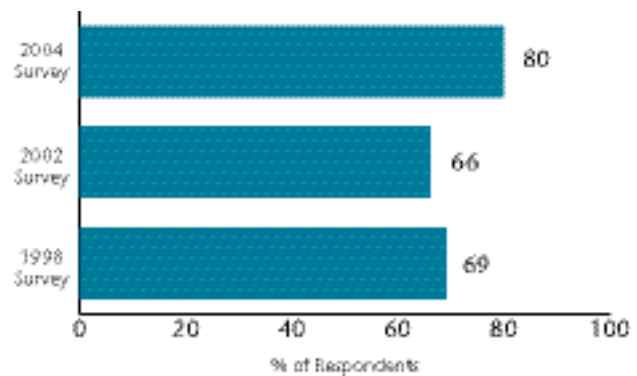


Figure 7

Support for compulsory employee contributions – employers with 50 to 499 employees

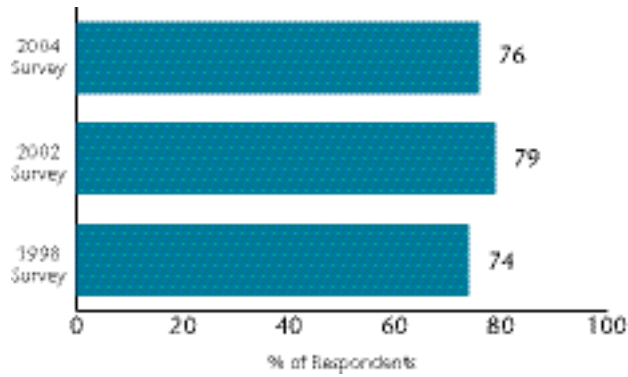
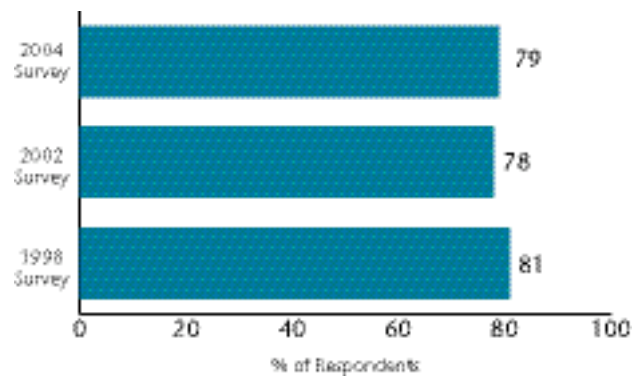


Figure 8

Support for compulsory employee contributions – employers with 500 and over employees



From 1998 to 2004, the level of support for employee compulsion has hardly changed for employers with 50 to 499 employees and with 500 and more employees. However, there has been a noticeable increase in the level of support for employee compulsion amongst employers with less than 50 employees over the last couple of years with this having increased from 66% in 2002 to 80% in 2004.

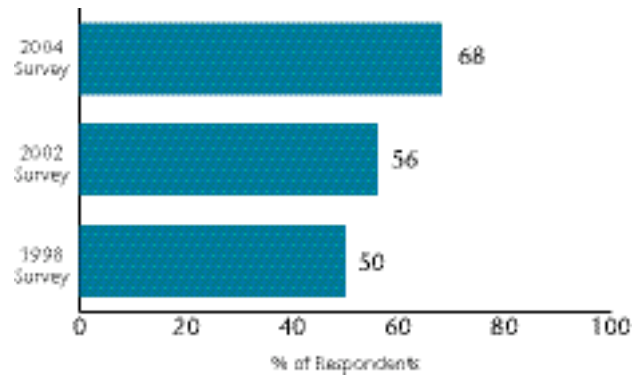
Employer pensions compulsion

Just over two-thirds of those who responded (68%) felt that all employers should have to make a compulsory

minimum pension contribution over and above current NI levels. This level of support for employer compulsion is noticeably higher than that reported in both 1998 and 2002 when it was, respectively, 50% and 56%.

Figure 9

Support for compulsory employer contributions – all employers



The level of support was highest for medium size employers with nearly three-quarters of those with 50 to 499 employees (72%) indicating support for employer compulsion. The level of support for employer compulsion was almost identical for small and large employers at 62% for those with less than 50 employees and 61% for those with 500 and over employees.

Figure 10

Support for compulsory employer contributions – employers with less than 50 employees

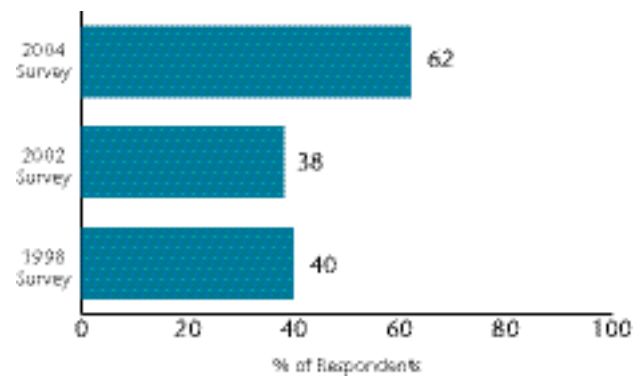
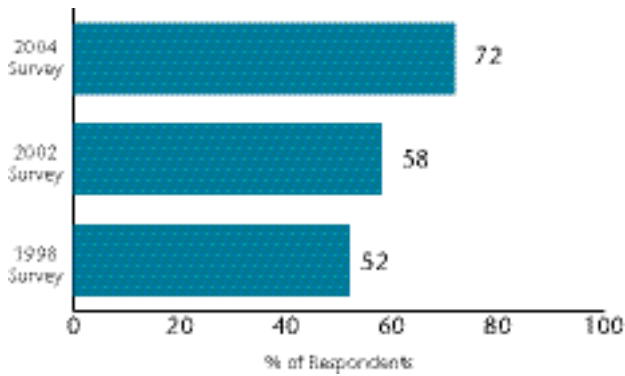


Figure 11

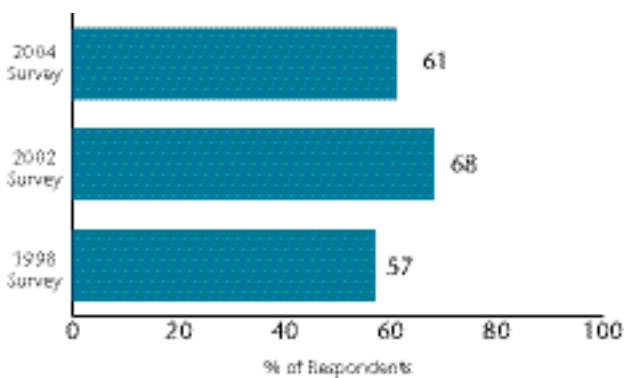
Support for compulsory employer contributions – employers with 50 to 499 employees



medium size employers is probably mainly due to their desire to create some form of “level playing field” for employer pension compulsion. It is these employers who are most likely to be facing competitive pressures from companies of a similar size who currently do not provide occupational pension arrangements for their employees.

Figure 12

Support for compulsory employer contributions – employers with 500 and over employees



Whereas the support for employer compulsion amongst large employers has fallen from 68% to 61% since 2002 and is only slightly higher than the figure recorded in 1998 (57%), the level of support amongst both small and medium size employers has risen quite significantly over recent years. The level of support for employer compulsion has risen from 58% to 72% between 2002 and 2004 for employers with 50 to 499 employees and, over the same period, from 38% to 62% for employers with less than 50 employees.

Since the vast majority of EEF members who responded to this Survey are already providing occupational pension arrangements for their employees, this growing level of support for employer compulsion amongst small and

3 Retirement arrangements

In addition to seeking the views of EEF members on various pension issues, the Survey examined their practical experience of having older employees as well as their views on retirement age issues when age discrimination legislation is introduced in October 2006 and the future of the State Pension Age.

Practical experience of having older employees

The Survey asked EEF members whether they had any full-time or part-time employees over their company's normal retirement age which, in the vast majority of cases (95%), was 65.

A quarter of all respondents stated that they had some full-time employees over their company's normal retirement age with this figure increasing to just over a third (35%) for employers with 500 and over employees.

Figure 13

Employers with full-time employees over normal retirement age

	Yes %	No %	Don't Know %
All employers	25	74	1
Employers with between 0 & 49 employees	22	76	2
Employers with between 50 & 499 employees	24	75	1
Employers with 500 and over employees	35	58	6

In the vast majority of cases where EEF members had full-time employees over normal retirement age, the number of these employees was between 1% and 5% of the total workforce although there were a few cases where it was between 6% and 10%.

Nearly a third (31%) of those who responded stated that they had some part-time employees who were over their company's normal retirement age. However, this figure was rather lower at just under a quarter (21%) for employers with 500 and over employees.

Figure 14

Employers with part-time employees over normal retirement age

	Yes %	No %	Don't Know %
All employers	31	67	1
Employers with between 0 & 49 employees	29	69	2
Employers with between 50 & 499 employees	33	67	-
Employers with 500 and over employees	21	69	10

In the vast majority of cases, the number of part-time employees over the age of 65 was again between 1% and 5% of their total workforce although there were also a few examples of where it was between 6% and 10%.

Retirement age arrangements when age discrimination legislation is introduced

In view of the public debate about what should happen to retirement age arrangements when age discrimination legislation is introduced by the Government in October 2006, the Survey sought EEF members' views on whether the Government should set a standard retirement age of 65, a standard retirement age of 70 or no standard retirement age.

Nearly two-thirds of those who responded (65%) indicated that they supported a standard retirement age of 65 being set by the Government with this level of support being roughly the same for all employers regardless of the size of their workforce. Only a quarter of those who responded supported the idea of the Government setting a standard retirement age of 70 and an even smaller percentage (18%) expressed support for there being no default retirement age.

Figure 15

Support for standard retirement age of 65 when age discrimination legislation is introduced

	Yes %	No %	Don't Know %
All employers	65	29	6
Employers with between 0 & 49 employees	64	27	9
Employers with between 50 & 499 employees	67	28	5
Employers with 500 and over employees	63	31	6

State Pension Age

The Survey also asked EEF members for their views about the level of the State Pension Age after 2020 when it will become 65 for both men and women. This showed that the vast majority of employers (87%) want it to remain at 65 after 2020 with the level of

support varying from 91% for employers with less than 50 employees to 77% for employers with 500 and more employees.

Figure 16

Support for State Pension Age remaining at 65 after 2020

	Yes %	No %	Don't Know %
All employers	87	9	4
Employers with between 0 & 49 employees	91	5	4
Employers with between 50 & 499 employees	86	10	4
Employers with 500 and over employees	77	13	10

About EEF

EEF, the manufacturers' organisation, has a membership of 6,000 manufacturing, engineering and technology-based businesses and represents the interests of manufacturing at all levels of government. Comprising 11 regional Associations, the Engineering Construction Industries Association (ECIA) and UK Steel, EEF is one of the UK's leading providers of business services in employment relations and employment law, health, safety and environment, manufacturing performance, education and skills, and information and research.

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About Aon

Aon Consulting focuses on the delivery of integrated solutions to our clients' HR needs. We achieve this by offering specialist skills in four broad areas:

- Pensions
- Benefits
- Asset Management
- HR Solutions

Aon Consulting has offices throughout the UK and is part of Aon Corporation, one of the world's largest providers of insurance and risk management related services. Worldwide, Aon employs over 51,000 people in 120 countries.

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