

Compendium

## Chapter 8: Pension contributions, 2014 edition

People are living longer and are likely to enjoy a longer retirement. But many people are not saving for their retirement, and many that are saving are not saving enough. One way of saving for retirement is by making pension contributions. This chapter looks at contributions to private (non-state) pensions. These are: occupational schemes for private sector and public sector employees; and personal pensions, including group personal pensions and stakeholder pensions. 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 Defined Benefit (DB) and Defined Contribution (DC) schemes. It concludes by considering the level of contributions made to personal pensions.



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# 1 . Background

Most member and employer contributions to private pensions are made as a percentage of the employee's pay. Such contributions, along with fixed amount payments, can be made as part of a schedule of normal (or regular) contributions. Members may also choose to make additional contributions to their private pension. Both of these types of contributions are considered within this chapter. When special cash payments are made to schemes (for example to address a deficit in a defined benefit schemes' liabilities), these payments are not considered normal contributions. Information on such payments are not considered in this chapter.

The level of contributions alone does not provide a measure of pension adequacy. In Defined Contribution (DC) schemes, also known as money purchase schemes, the pension is determined by the level of contributions, the investment returns received while the contributions are invested in a pension fund and, if an annuity is purchased, by the annuity market (see [Defined Contribution pension savings](#)). In Defined Benefit (DB) schemes, the scheme rules determine the amount of pension that will be received in retirement, based on the accrual rate, length of service and salary. (For definitions, see [Pension Trends Glossary \(198.9 Kb Pdf\)](#). For information regarding membership of all types of non-state pension see [Pension Trends Chapter 7](#).)

There is considerable variation in the level of contributions between schemes, and in 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 end of the spectrum, there are pensions where the employer makes no contribution and the full cost of pension saving is carried by the individual. These are personal pensions.

Based on average contribution rates, around three-quarters of the cost of private sector DB occupational pension schemes falls on the employer. With DC occupational pension schemes, the employer makes around two-thirds of total contributions.

The amount an employer contributes 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. In contrast, the global economic downturn in the early 21st century meant that some pension schemes went into deficit and employers had to make additional special contributions.

## 2 . Workplace pension reforms

Starting in October 2012, with gradual roll out by 2018, all employers have a duty automatically to enrol eligible employees into a qualifying pension scheme and to make contributions on their behalf. Automatic enrolment is being introduced in stages, based on the size of the employers' Pay As You Earn (PAYE) scheme on 1 April 2012, commencing with the larger employers. Minimum workplace pension contribution levels for employers have also been introduced, in a phased process, again with full implementation by 2018.

The minimum contribution levels vary depending upon the scheme's definition of pensionable pay. In the case of a scheme with a definition of pensionable pay equivalent to that of qualifying earnings<sup>1</sup>, the minimum level of contributions, expressed as a proportion of the employees' qualifying earnings, are as follows:

- between October 2012 and September 2017 Defined Contribution (DC) schemes or personal pensions must have contributions of at least 2%, with at least 1% coming from the employer;
- between October 2017 to September 2018 the minimum contribution will be 5%, with at least 2% coming from the employer; and
- from October 2018 it will be 8%, with at least 3% coming from the employer.

It should be noted that workplace pension reforms are not taking place in isolation. Other reforms, (for example, state pension reform, see section: **Contracting out of private sector workplace pension schemes**) and other factors, such as the use of salary sacrifice arrangements<sup>2</sup>, employment levels, disposable household income levels and attitudes to saving for retirement, may all affect contribution rates

For more detailed information on workplace pension reforms and links to further information please see **Supporting information: Workplace pension reforms**.

## Notes for workplace pension reforms

1. Qualifying earnings refer to earnings between £5,668 to £41,450 in 2013/14. Qualifying earnings include earnings from bonuses and overtime. Some pension scheme rules do not include these items in their definition of pensionable pay.
2. Employer contributions levels can be affected by salary sacrifice arrangements whereby higher contributions are made by the employer with the member in return accepting a lower rate of pay. Where such arrangements exist, the member and employer both benefit from lower National Insurance payments.

## 3 . Data sources

The various data sources used in this chapter have different coverage and characteristics. The analyses use the source that is most appropriate for the topic, but this inevitably means that there are differences in the types of pension covered and in the population base between one analysis and another. The main sources used are:

- the Office for National Statistics (ONS) [Occupational Pension Schemes Survey \(OPSS\)](#), for estimating numbers of active members of occupational pension schemes, average contribution rates and the distribution of employee and employer contribution rates in occupational schemes;
- the ONS [Annual Survey of Hours and Earnings \(ASHE\)](#), for the distribution of employee and employer contribution rates for workplace pensions; and
- [HM Revenue and Customs administrative data](#) for the number and size of contributions to personal pensions.

The OPSS collects regular contribution rates, excluding fixed amount payments, but can also identify the proportion of members in schemes with fixed amount payments. In ASHE, contributions include one-off fixed amount payments from either the employee or employer. Both ASHE and OPSS exclude additional voluntary contributions (AVC's) made by employees, and employer contributions which cover more than one employee, for example, deficit reduction payments to a scheme.

The reference date for the 2013 estimates from the OPSS and ASHE is April 2013. The 2013 results are the first estimates to be produced from these surveys following the introduction of the Workplace pension reforms. While reference is made to these reforms within the chapter, it should be noted that the phased implementation of the reforms was at an early stage in April 2013.

Caution should be exercised when interpreting changes in estimates of average contribution rates over time. Changes over time may reflect variation in sample estimates rather than significant shifts in contributions rates. Quality and methodology information is available on the ONS website for the [OPSS \(354.5 Kb Pdf\)](#) and [ASHE \(212.6 Kb Pdf\)](#), both of which are designated as National Statistics in accordance with the Statistics and Registration Service Act 2007.

## 4 . Private sector occupational pension contribution rates

On average, regular contribution rates (excluding fixed amount payments) are higher for Defined Benefit (DB) schemes than for Defined Contribution (DC) schemes. The [2013 Occupational Pension Schemes Survey \(OPSS\)](#) found that the average total contribution rate (employee plus employer contributions) for private sector DB occupational pension schemes was 20.6%, while for DC schemes it was 9.1%.

Table 8.1 shows weighted-average contribution rates since 2000, for the years for which data are available from the OPSS. Between 2011 and 2013, employer contribution rates for DB schemes have risen slightly, from 14.2% to 15.4%. It may be that schemes increase their regular contribution rates in order to minimise deficits or the risk of falling into deficit. Pension Protection Fund (PPF) estimates of DB schemes liabilities have increased over the last few years ([Table 4.2 of the Purple Book 2014](#)), suggesting schemes may need to consider raising regular contribution rates.

The recent fall in average employer contribution rates for DC schemes, from 6.6% in 2012 to 6.1% in 2013, may be linked to the impact of workplace pension reforms. Whilst it is not possible to isolate the effect of these reforms, an increase in the number of new members starting pensions on the minimum contribution rates would lower the average rate. The fall may also be due to employers reducing contributions into existing pensions, referred to as 'levelling down'. Analysis conducted by the [Department of Work and Pensions \(DWP\)](#) suggests the incidence of 'levelling down' has remained at a level consistent with that found before the introduction of automatic enrolment.

**Table 8.1: Weighted-average contribution rates to private sector occupational pension schemes: by benefit structure and contributor, 2000 to 2013**

United Kingdom

Percentages

Year	Defined benefit			Defined contribution		
	Employee	Employer	Total	Employee	Employer	Total
2000	4.2	9.9	14.0	2.7	4.3	7.0
2004	4.3	14.5	18.8	2.9	6.0	8.9
2005	4.4	16.0	20.4	2.7	6.3	9.0
2006	4.7	15.0	19.7	3.0	5.9	8.9
2007	4.9	15.6	20.5	2.7	6.5	9.1
2008	4.9	16.6	21.6	3.0	6.1	9.0
2009	5.2	16.5	21.7	2.9	6.4	9.3
2010	5.1	15.8	20.8	2.7	6.2	8.9
2011	4.9	14.2	19.2	2.8	6.6	9.4
2012	4.9	15.2	20.2	3.1	6.6	9.7
2013	5.2	15.4	20.6	2.9	6.1	9.1

Source: Occupational Pension Schemes Survey, Office for National Statistics

Notes:

1. Includes schemes where standard contributions (from either the employee or the employer) were zero
2. Excludes normal contributions paid as fixed amounts
3. Includes rates for open, closed and frozen schemes
4. Excludes schemes with fewer than 12 members
5. Changes to methodology for 2006 onwards mean that comparisons with 2005 and earlier should be treated with caution
6. In 2010, the OPSS questionnaire was redeveloped to ensure that, if there were different contribution rates for different groups of members, then these were recorded. The scheme was asked to give the different rates and the corresponding proportion of active members to whom that rate applied. Prior to 2010, only the contribution rate that applied to the majority of members was recorded. This means that caution should be exercised when comparing the figures for 2010 and onwards with earlier estimates
7. Prior to 2013, Defined Contribution (DC) pension schemes could classify themselves in OPSS as either contracted out or not contracted out of the additional state pension. The Pensions Act 2007 abolished the option for DC pensions to contract out of the additional state pension, with effect from April 2012. 2012 data may not fully reflect the impact of this change. See Pensions Trends Chapter 8: Pension Contributions, 2014 edition, section: Contracting out of private sector occupational pension schemes

Changes in contributions over time can also be examined by looking at the distribution of active members (or employees) across contribution rate 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 7](#)) or changes to the ability of schemes to contract out of the additional state pension (see section **Contracting out of private sector occupational pension schemes**). The following sections look at the distribution of employee and employer contribution rates.

## Employee contribution rates for private sector occupational pension schemes

This section looks at employee contribution rates for private sector occupational Defined Benefit (DB) and Defined Contribution (DC) schemes with 12 or more members. In 2013, according to results from the OPSS, an employee in a private sector occupational DB scheme contributed, on average, 5.2% of salary. For occupational DC schemes, the average contribution rate was 2.9%. The average contribution rate for employees in private sector occupational DB schemes, was estimated to have increased from 2000 to 2009, fell to 4.9% by 2012 but then increased to 5.2% in 2013. For occupational DC schemes, there has been little change in employee contribution rates (Table 8.1).

The total number of active members of private sector occupational pension schemes fell from 6.3 million in 1991 to 2.7 million in 2012 then increasing to 2.8 million in 2013 (For information about private pension membership see [Pension Trends Chapter 7](#)). These figures exclude 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 amount of private sector occupational pension scheme membership, 0.1 million members in 2013. The estimates provided in this section also exclude those that did not provide information on their contribution rates, around 0.1 million members in 2013.

Table 8.2 shows information from OPSS on the proportion of employees within each employee contribution rate band. For 2013, the proportion of members in the lowest contribution band (under 3%) was around 9% of the total, 3 percentage points higher than in 2012. The proportion of active members in the highest contribution band increased from just under 22% in 1991 to over 42% in 2009 but then fell to just under 35% by 2013.

**Table 8.2: Proportion of active members of private sector occupational pension schemes: by employee contribution rates, 1991 to 2013**

United Kingdom

Year	Percentages				
	Under 3%	3% to under 5%	5% to under 6%	6% and over	Non-contributory or other basis
1991	5	22	30	22	22
1995	10	27	30	14	19
2000	10	20	33	22	16
2004	7	21	19	32	21
2005	7	18	21	32	22
2006	7	20	20	38	15
2007	7	19	17	39	18
2008	6	24	14	40	16
2009	6	23	13	42	16
2010	6	16	18	39	21
2011	6	15	21	37	20
2012	6	19	19	36	19
2013	10	19	20	35	17

Source: Occupational Pension Schemes Survey, Office for National Statistics

Notes:

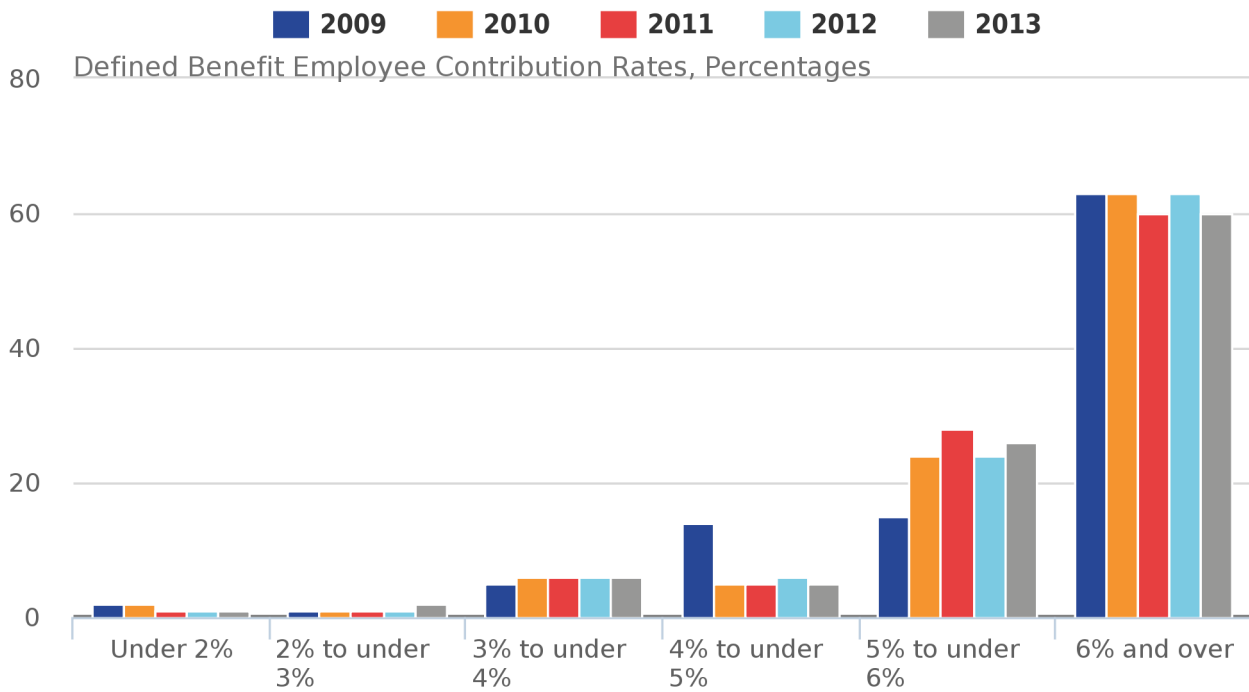
1. Excludes schemes with fewer than 12 members and non-respondents
2. Due to changes in the definition of the private and public sectors, estimates for 2000 and onwards differ from earlier years. From 2000, organisations such as the Post Office and the BBC were reclassified from the public to the private sector
3. Changes to methodology for 2006 onwards mean that comparisons with 2005 and earlier should be treated with caution
4. In 2010, the OPSS questionnaire was redeveloped to ensure that if there were different contribution rates for different groups of members, then these were recorded. The scheme was asked to give the different rates and the corresponding proportion of active members to whom that rate applied. Prior to 2010, only the contribution rate that applied to the majority of members was recorded. This means that caution should be exercised when comparing the figures for 2010 and onwards with earlier estimates
5. 'Other basis' means contributions made other than as a percentage of salary. For 2006 and before, 'other basis' may have included fixed amount or voluntary payments. For 2007 onwards, '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

Figure 8.3 shows the breakdown of DB and DC employee contribution rates by bands for 2009 to 2013. For DB schemes, the most common rate for employee contributions was '6% and over'. This band represented 60% of active members in 2013. Contribution rates were generally lower for DC schemes. The most common rate for DC employee contributions was '3% to 4%'. This band represented around 25% of active members in 2013. This difference might be explained by the different characteristics of DB and DC schemes. For DB schemes, the level of contributions employees (and employers) make is based on actuarial estimates of the amount of money required to meet the promised level of pension payment to all scheme members on retirement. For DC schemes, no promise regarding the level of pension payment that will be received by members in retirement is made.

Between 2012 and 2013, the proportion of employee members of DC schemes contributing 'Under 2%' increased from 3% to 12%. This may be, in part, due to the impact of the workplace pension reforms, with new members starting DC pensions in 2013 as a result of automatic enrolment potentially making only the minimum contributions required.

**Figure 8.3: Distribution of active membership of private sector occupational pension schemes: by type of scheme and employee contribution rate, 2009 to 2013**

United Kingdom, percentages





**Figure 8.3: Distribution of active membership of private sector occupational pension schemes: by type of scheme and employee contribution rate, 2009 to 2013**

United Kingdom, percentages



Source: Occupational Pension Scheme Survey (OPSS) - Office for National Statistics

**Notes:**

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
4. In 2010, the OPSS questionnaire was redeveloped to ensure that, if there were different contribution rates for different groups of members, then these were recorded. The scheme was asked to give the different rates and the corresponding proportion of active members to whom that rate applied. Prior to 2010, only the contribution rate that applied to the majority of members was recorded. This means that caution should be exercised when comparing the figures for 2010 and onwards with earlier estimates
5. Prior to 2013 Defined Contribution (DC) pension schemes could classify themselves in OPSS as either contracted out or not contracted out of the additional state pension. The Pensions Act 2007 abolished the option for DC pensions to contract out of the additional state pension, with effect from April 2012. 2012 data may not fully reflect the impact of this change. See section: Contracting out of private sector occupational pension schemes

**Employer contribution rates for private sector occupational pension schemes**

In this section, we look at employers' regular contribution rates using results from the OPSS. The data excludes additional contributions paid as fixed amounts though additional contributions can be substantial where employers are correcting deficits in DB schemes.

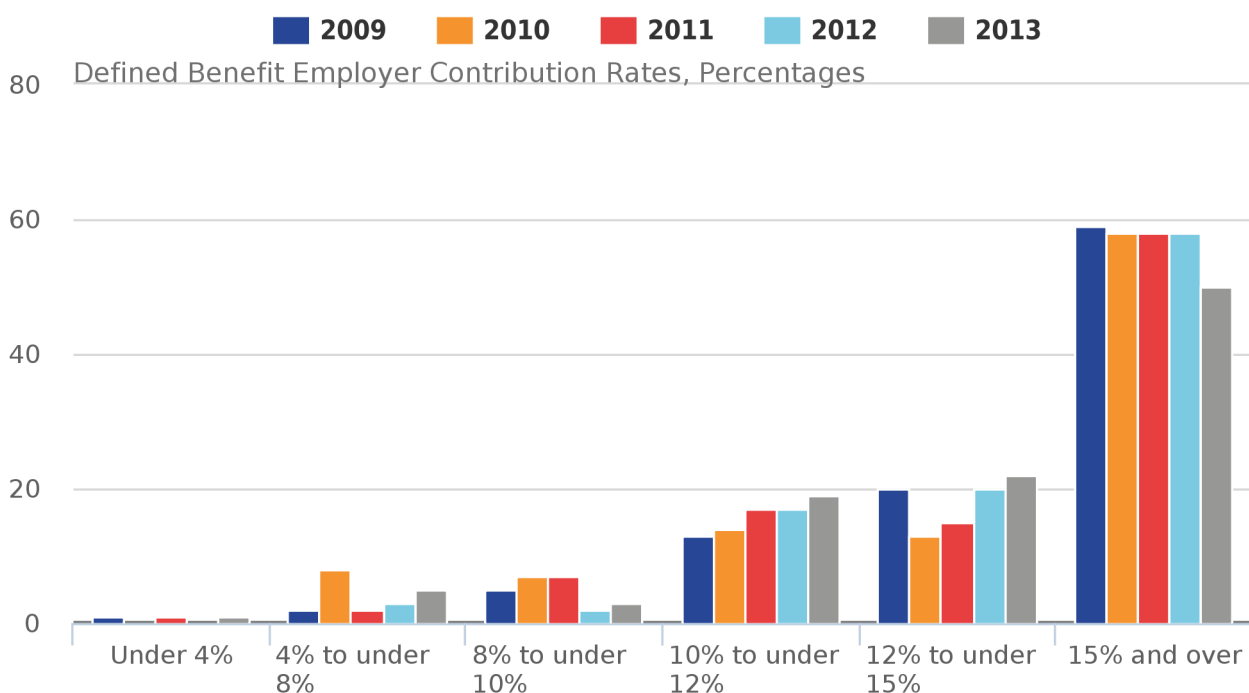
There is a marked difference between employer contribution rates in DB and DC pension schemes. In 2013, the average employer contribution rate for private sector DB occupational pension schemes was 15.4% of salary. This compares with an average employer contribution rate of 6.1% for DC schemes (see Table 8.1). Part of the difference between contribution rates in DB and DC schemes is attributable to the different characteristics of the schemes and their members:

- DC occupational pension schemes can no longer contract out of the additional state pension. The Pensions Act 2007 abolished the option for DC pensions to contract out with effect from April 2012. Even prior to this, most DC occupational schemes were not contracted out. Most DB occupational schemes are contracted out (see section **Contracting out of private sector occupational pension schemes**);
- most DC schemes are not as long established as DB schemes. As DB pension schemes membership matures, it is possible higher contribution rates are more likely in order that the schemes can meet their liability to these members (for more information see [Pension Trends Chapter 6](#)).

The distribution of active membership by level of employer contributions is shown in Figure 8.4. In 2013, 71% of active members of private sector DB schemes had employer contributions of 12% of salary or more. The proportion with employer contribution rates of '15% and over' fell from just below 58% in 2012 to just below 50% in 2013. Whilst, as stated previously, it is not possible to isolate the effect of workplace pension reforms, the lower proportion in the '15% and over' band in 2013, may reflect an increase in the number of employees being automatically enrolled into existing DB pension schemes with employer contributions in the lower contribution bands. It may also reflect employers reducing contributions into existing pensions.

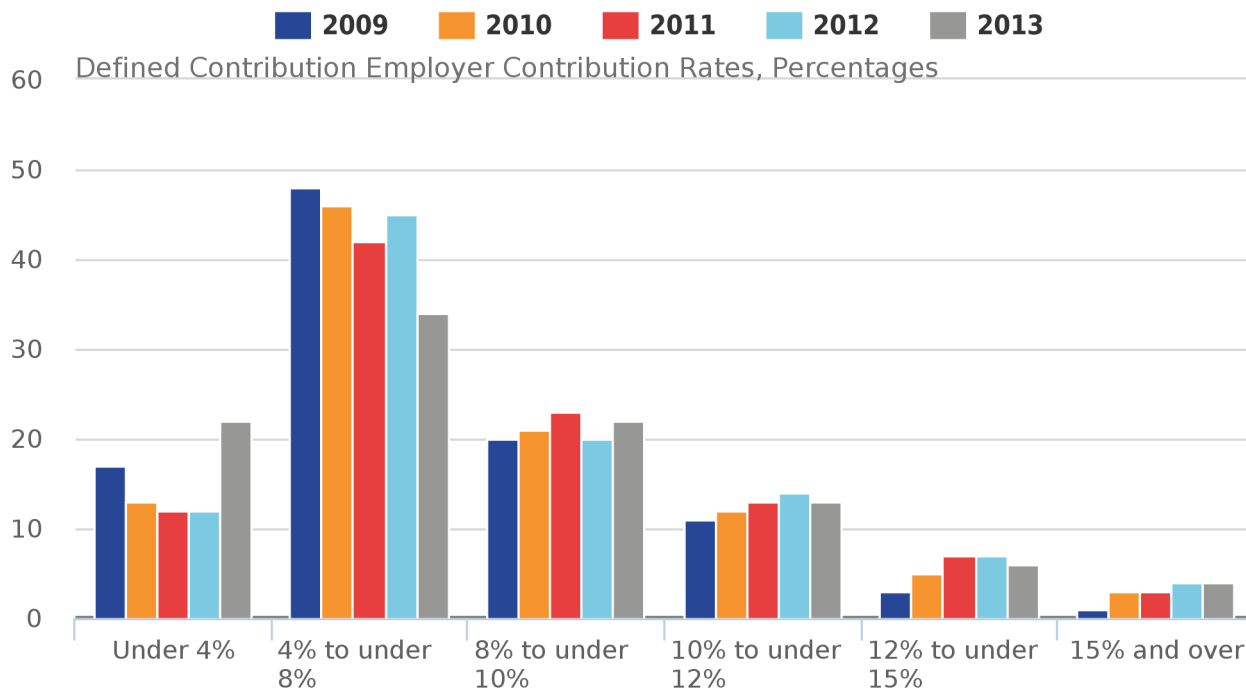
**Figure 8.4: Distribution of active membership of private sector occupational pension schemes: by type of scheme and employer contribution rate, 2009 to 2013**

United Kingdom, percentages



**Figure 8.4: Distribution of active membership of private sector occupational pension schemes: by type of scheme and employer contribution rate, 2009 to 2013**

United Kingdom, percentages



Source: Occupational Pension Scheme Survey (OPSS) - Office for National Statistics

**Notes:**

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
4. In 2010, the OPSS questionnaire was redeveloped to ensure that, if there were different contribution rates for different groups of members, then these were recorded. The scheme was asked to give the different rates and the corresponding proportion of active members to whom that rate applied. Prior to 2010, only the contribution rate that applied to the majority of members was recorded. This means that caution should be exercised when comparing the figures for 2010 and onwards with earlier estimates
5. Prior to 2013 Defined Contribution (DC) pension schemes could classify themselves in OPSS as either contracted out or not contracted out of the additional state pension. The Pensions Act 2007 abolished the option for DC pensions to contract out of the additional state pension, with effect from April 2012. 2012 data may not fully reflect the impact of this change. See section: Contracting out of private sector occupational pension schemes

Only 4% of active members of DC schemes were in the '15% and over' employer contribution rate band in 2013. The proportion of DC schemes with employer contribution rates of 'Under 4%' increased from around 11% in 2012 to almost 22% in 2013. This increase may reflect an increase in the number of employees starting new pensions on the minimum contribution rates required under automatic enrolment.

## Contracting out of private sector occupational pension schemes

The Pensions Act 2007 abolished the option for Defined Contribution (DC) pensions to contract out of the additional state pension, from April 2012. Contracting out for Defined Benefit (DB) schemes will also end with the planned introduction of the [single-tier pension](#) in April 2016. In 2013, 1.3 million members, 80% of all active members of private sector DB schemes, belonged to contracted out schemes.

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. Employers contributing to contracted out schemes make lower National Insurance contributions, with the pension benefit from the scheme expected to make up for the loss of any additional state pension that could have potentially been accrued. It is reasonable to expect that employer contributions made to contracted out pension schemes will be higher than those made to not contracted out pension schemes.

**Table 8.5: Active members of private sector occupational pension schemes: by employer contribution rate, type of scheme and contracting out status, 2013**

United Kingdom

Contributions as percentage of salary	Defined Benefit		Defined Contribution	Millions
	Contracted out	Not contracted out	Not contracted out	
Under 8%	0.0	0.1		0.6
8% to under 12%	0.3	0.0		0.3
12% to under 15%	0.2	0.1		0.1
15% and over	0.7	0.1		0.0
Non-contributory or other basis	0.1	0.0		0.0
Total	1.3	0.3		1.1

Source: Occupational Pension Scheme Survey, Office for National Statistics

Notes:

1. Excludes schemes with fewer than 12 members and non respondents (less than 0.2 million active members)
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
3. Pensions Act 2007 changes meant that from April 2012, the option to contract out of the additional state pension for defined contribution pensions was abolished. See Pensions Trends Chapter 8: Pension Contributions, 2014 edition, section: Contracting out of private sector occupational pension schemes

The data would seem to support this. In contracted out DB schemes, 93% of active members received contribution rates of 8% and over and 53% received 15% and over. This contrasted with not contracted out DC schemes, where 49% of active members received employer contribution rates of less than 8% in 2013.

OPSS estimates that the employer contribution rate for contracted out DB schemes in 2013 was, on average, 16.4%. For not contracted out DB schemes the rate was 11.5%, for not contracted out DC schemes the rate was 6.1% (these estimates are available in the download file for Table 8.5).

The relatively low employer contribution rates of DC schemes might be partially explained by all DC schemes being not contracted out, from April 2012. If this were the case, then it would be expected that, before that, such DC schemes would have employer contribution rates similar to those of contracted out DB schemes. Historically, the data has shown that, to some extent, this is the case. The download file for Table 8.5 gives the historical data<sup>1</sup>. However, the 'not contracted out' status of DC schemes does not fully explain their lower employer contribution rates.

## **Contributions to private sector occupational Defined Contribution (DC) pensions**

This section looks at total (employer + employee) contribution rates to occupational 'not contracted out' DC schemes by various factors such as age, sex, occupation and earnings<sup>2</sup>.

Data from ASHE is used. ASHE is a good source of data on contribution patterns because it collects information for employees, whereas OPSS collects information for schemes. However, it should be noted that it is not possible to compare average contribution rates from ASHE with those from OPSS. This is because ASHE potentially includes small numbers of individuals making large one off fixed amount contributions (see section **Data sources**), while the OPSS figures are based on regular contributions made as a percentage of salary only.

Table 8.6 shows the distribution of employee members of private sector 'not contracted out' DC schemes by total contribution rates for each year between 2009 and 2013. The estimates show a slight shift to higher total contribution rates from 2009 to 2012. For example, in 2009, 32% of members were in receipt of contributions of less than 8% with 37% in receipt of contributions of 12% or more. By 2012, 25% of members were receiving less than 8% and over 44% were receiving contributions of 12% or more.

In 2013, following the introduction of automatic enrolment and the end to the possibility of contracting out for DC schemes, 32% of members were receiving contributions of less than 8% and 16% received contributions of under 4%. In 2013, 41% were receiving contributions of 12% or more.

**Table 8.6: Distribution of employee members of private sector defined contribution occupational pension schemes not contracted out of the additional state pension: by total contribution rates, 2009 to 2013**

United Kingdom

Year	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
2009	6	26	32	19	8	5	4
2010	5	23	33	20	8	4	6
2011	5	21	31	21	10	5	6
2012	5	20	31	23	10	6	6
2013	16	16	27	18	14	5	5

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

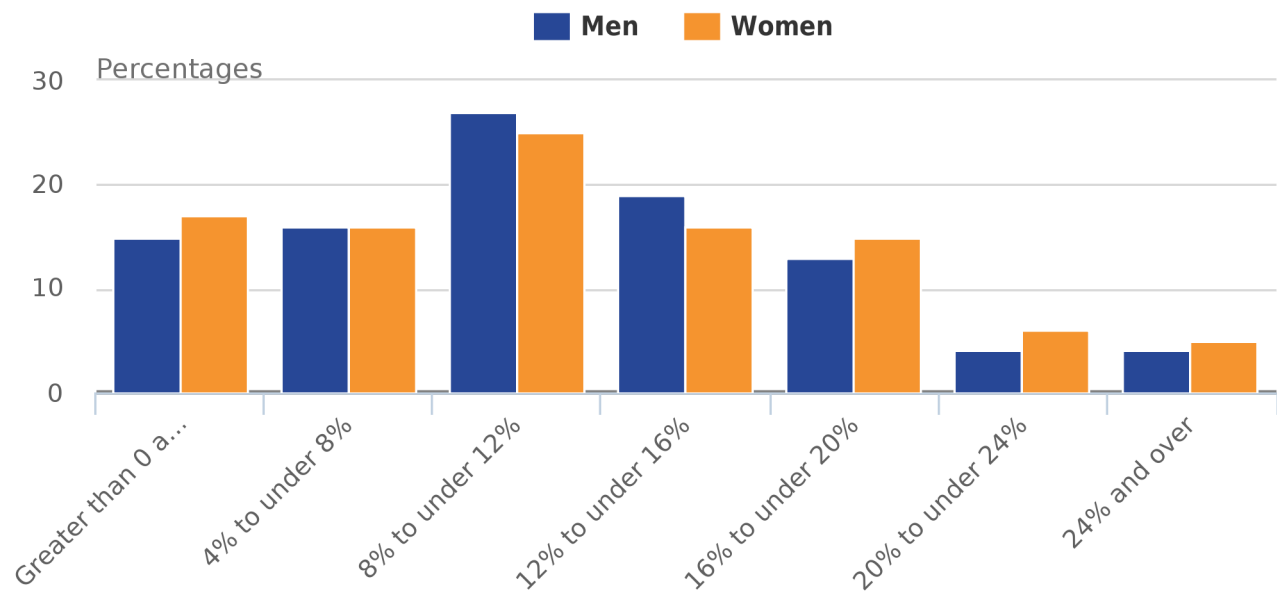
Notes:

1. Active membership of a pension that is arranged through an employer, main pension only
2. Employee plus employer contributions: at least one is greater than zero
3. Contributions may include one-off fixed amount payments, but exclude employer contributions covering more than one employee and Additional Voluntary Contributions (AVCs) by employees
4. The private sector is classified using the legal status from the Inter-Departmental Business Register and does not include 'third sector' organisations such as charities
5. The Pensions Act 2007 abolished the option for DC pensions to contract out of the additional state pension, with effect from April 2012. See Pensions Trends Chapter 8: Pension Contributions, 2014 edition, section: Contracting out of private sector occupational pension schemes

Figure 8.7 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. In 2013, as in most previous years, the most common contribution rate for men and women was '8% to under 12%' of earnings. A higher proportion of women contributed in the 'Greater than 0 and under 4%' band; and in all bands from '16% to under 20%' and above.

**Figure 8.7: 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, 2013**

United Kingdom, percentages



Source: Annual Survey of Hours and Earnings (ASHE) - Office for National Statistics

**Notes:**

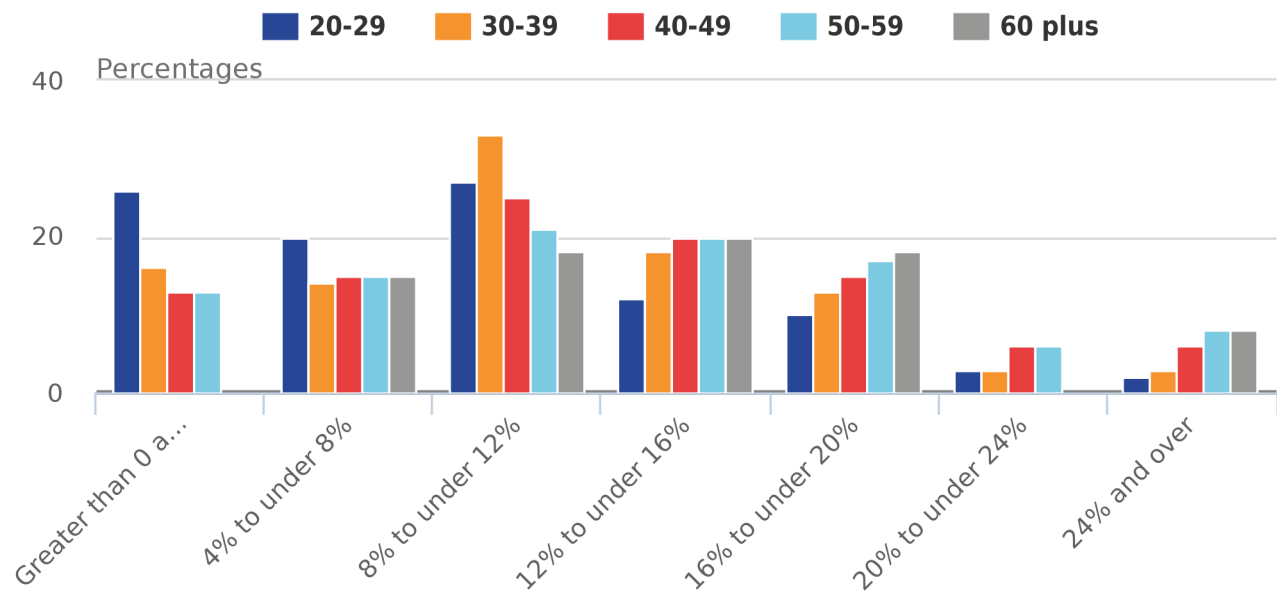
1. Active membership of a pension that is arranged through an employer, main pension only
2. Employee plus employer contributions: at least one is greater than zero
3. Contributions may include one-off fixed amount payments, but exclude employer contributions covering more than one employee and Additional Voluntary Contributions (AVCs) by employees
4. The private sector is classified using the legal status from the Inter-Departmental Business Register and does not include 'third sector' organisations such as charities
5. Estimates for 2005 onwards are available in the download file

As employees approach retirement they may wish to increase their pension contributions to try to improve their retirement benefits, if this option is offered as part of the scheme rules<sup>3</sup>. 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 8.8 shows some evidence of this for DC schemes in 2013. The older age groups represent a greater proportion than the younger ones in most of the higher contribution bands (16% 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% band.

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.

**Figure 8.8: 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, 2013**

United Kingdom



Source: Annual Survey of Hours and Earnings (ASHE) - Office for National Statistics

Notes:

1. Active membership of a pension that is arranged through an employer, main pension only
2. Employee plus employer contributions: at least one is greater than zero
3. Contributions may include one-off fixed amount payments, but exclude employer contributions covering more than one employee and Additional Voluntary Contributions (AVCs) by employees
4. The private sector is classified using the legal status from the Inter-Departmental Business Register and does not include 'third sector' organisations such as charities
5. Estimates for the '60 plus' age group are included in the download file

In 2013, employees in elementary occupations, such as cleaning or labouring, had low contribution rates: 45% of employees in this occupational category had total contributions of less than 8% of earnings, compared with 32% for all occupations. In 2012, 8% of employees in elementary occupations had total contribution rates 'Greater than 0 and under 4%'. In 2013, this figure had increased to 34%. This may be, in part, due to the impact of **Workplace pension reforms**, with new members starting DC pensions in 2013 as a result of automatic enrolment potentially making the minimum contributions required (see [Pension Trends Chapter 7](#)). The gross earnings threshold for eligibility for automatic enrolment in 2013/14 was £182 per week.

Managers and senior officials had the highest total contribution rates: 33% had total contributions of 16% or more in 2013, and only 20% had total contributions of less than 8%.



**Table 8.9: Distribution of employee members of private sector defined contribution occupational pension schemes not contracted out of the additional state pension: by selected occupations (SOC 2010) and total contribution rates, 2013**

United Kingdom

Occupation	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
Managers, directors and senior officials	9	11	27	20	19	6	8
Professional	6	15	33	25	11	5	5
Associate professional and technical	7	15	32	22	12	5	6
Administrative and secretarial	15	16	31	17	11	4	6
Skilled trades	25	20	25	17	9	u	u
Sales and customer service	25	20	20	9	20	u	u
Process, plant and machine operatives	23	23	26	18	6	u	u
Elementary	34	11	14	11	u	u	u

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

Notes:

1. Active membership of a pension that is arranged through an employer, main pension only
2. Employee plus employer contributions: at least one is greater than zero
3. Contributions may include one-off fixed amount payments, but exclude employer contributions covering more than one employee and Additional Voluntary Contributions (AVCs) by employees
4. "u" indicates that cells have been suppressed on quality grounds: The quality of an estimate is measured by its CV, which is the ratio of the standard error of an estimate to the estimate. Secondary suppression has also been applied where necessary
5. The private sector is classified using the legal status from the Inter-Departmental Business Register and does not include 'third sector' organisations such as charities

The impact of different earnings levels is shown in Table 8.10. As in previous years, in 2013 employees with higher earnings tended to have higher total pension contribution rates. Just over 50% of employees earning over £600 per week had total contribution rates of 12% of earnings or more. In contrast, nearly 60% of employees earning under £200 per week had rates of less than 12% of earnings.

**Table 8.10: 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, 2013**

United Kingdom

Gross weekly earnings	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	22	20	16	7	21	u	u
£200 to under £300	39	14	16	7	14	u	u
£300 to under £400	28	17	22	12	15	2	3
£400 to under £500	17	22	28	15	11	3	4
£500 to under £600	14	16	34	18	11	3	3
Over £600	6	13	31	25	13	6	6

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

Notes:

1. Active membership of a pension that is arranged through an employer, main pension only
2. Employee plus employer contributions: at least one is greater than zero
3. Contributions may include one-off fixed amount payments, but exclude employer contributions covering more than one employee and Additional Voluntary Contributions (AVCs) by employees
4. "u" indicates that cells have been suppressed on quality grounds: The quality of an estimate is measured by its CV, which is the ratio of the standard error of an estimate to the estimate. Secondary suppression has also been applied where necessary
5. The private sector is classified using the legal status from the Inter-Departmental Business Register and does not include 'third sector' organisations such as charities

### Notes for private sector occupational pension contribution rates

1. In 2013, all active members of Defined Contribution (DC) schemes are by law, not contracted out. In 2011, prior to the implementation of this legislation, there were still only 0.1 million active members of 'contracted out' DC schemes. This relatively small figure made it difficult to compare the proportions in each contribution band with the distribution of active members in contracted out Defined Benefit (DB) schemes.
2. The Annual Survey of Hours and Earnings 2013 pension tables, in particular tables P6 to P12, show the proportion of employees by employee and employer contribution rate bands for the other pension types.
3. In 2013, 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?" 15% of active members were in schemes that said yes.

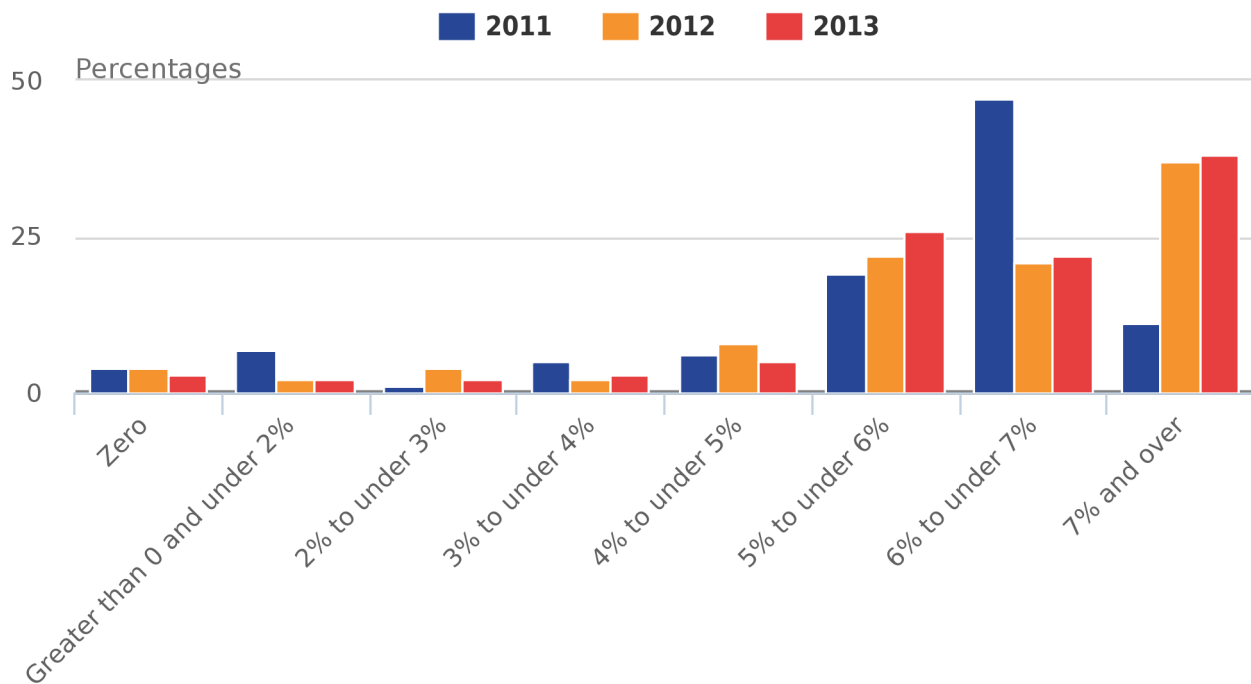
## 5 . Public sector occupational pension schemes

Nearly all public sector occupational pension schemes are Defined Benefit (DB) schemes. The majority of membership is in the seven big public sector employers: the civil service, the armed forces, the National Health Service (NHS), teachers, local government (the Local Government Pension Scheme), police and fire-fighters. Apart from the Local Government Pension Scheme, which is funded, all of these schemes are run on an unfunded basis (see [Pension Trends Glossary \(198.9 Kb Pdf\)](#)). In the Annual Survey of Hours and Earnings (ASHE), the public sector is classified using the legal status from the Inter-Departmental Business Register.

Since 2011, many public sector pension schemes have made changes to their employee contribution rates. These have been made as a result of recommendations outlined in the 2011 report of the [Independent Public Service Pensions Commission chaired by Lord Hutton of Furness](#). In general, these changes have led to increased contribution rates at all levels. Many schemes have introduced, or were already using, tiered structures where the contribution rate is determined by the employee's earnings band.

**Figure 8.11: Distribution of employee members of public sector occupational pension schemes: by employee contribution rates, 2011 to 2013**

United Kingdom



Source: Annual Survey of Hours and Earnings (ASHE) - Office for National Statistics

Notes:

1. Active membership of a pension that is arranged through an employer, main pension only
2. The public sector is classified using the legal status from the Inter-Departmental Business Register

Figure 8.11 shows that, in 2011, 11% of employees were paying contribution rates in the '7% and over' band, with 47% paying '6% to under 7%'. Employee contribution rates had increased by 2013, with 38% paying contributions in the '7% and over' band and 22% paying '6% to under 7%'.

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.

## 6 . Personal pensions

Personal pensions, which include stakeholder pensions and Self-Invested Personal Pensions (SIPPs)<sup>1</sup>, are those where individuals enter into a contract with a pension provider, usually an insurance company (by contrast, occupational schemes have trustees and are governed by trust law, see [Pension Trends Glossary \(198.9 Kb Pdf\)](#) ). Personal pensions may be taken out on an individual basis or arranged on a 'group' basis, usually facilitated by employers, who may make contributions for members. Employers may use 'group' personal pensions to meet their obligations under Automatic Enrolment (AE).

### Employer contributions to personal pensions

Some employers operate Group Personal Pensions (GPPs) either as well as an occupational pension scheme or as the main form of pension provision. The GPP's employers operate may include group stakeholder pensions and group self-invested personal pensions. Although the employees contributing to GPPs have individual contracts, the administration costs are likely to be lower than if they arranged an individual personal 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 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 scheme. Due to the staged nature of AE, at April 2013, the reference date of the ASHE, only larger employers needed to have introduced AE and to be making the associated minimum contributions (see section: **Workplace Pension Reforms**). Therefore, it is of interest to examine employer contribution rates to GPPs (including group SIPPs) and stakeholder pensions specifically, by size of employer.

Figures 8.12 and 8.13 show the proportion of GPP and stakeholder pension members by employer contribution rate for private sector employers in 2013, for employers:

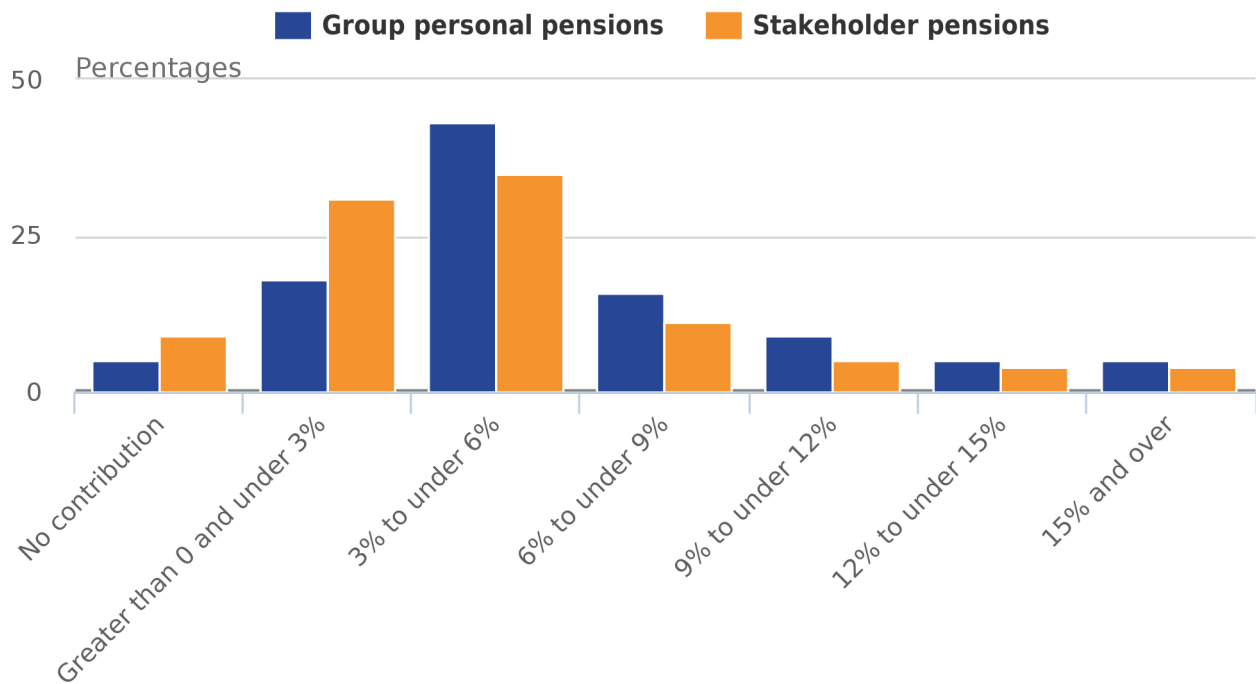
- with fewer than 100 employees (Figure 8.12); and
- with 100 or more employees (Figure 8.13).

The charts show a clear difference. In smaller employers, 34% of those with GPPs and 25% of those with stakeholder pensions had employer contribution rates of 6% and over. For larger employers, 43% of those with GPPs and 38% of those with stakeholder pensions had employer contribution rates of 6% and over.

In larger employers (Figure 8.13), 4% of those with GPPs and 5% of those with stakeholder pensions received no employer contribution in 2013; this compares with 5% and 9 % respectively for smaller employers (Figure 8.12).

**Figure 8.12: Distribution of employee members of private sector group personal pensions and stakeholder pensions where employer has less than 100 employees: by employer contribution rates, 2013**

United Kingdom



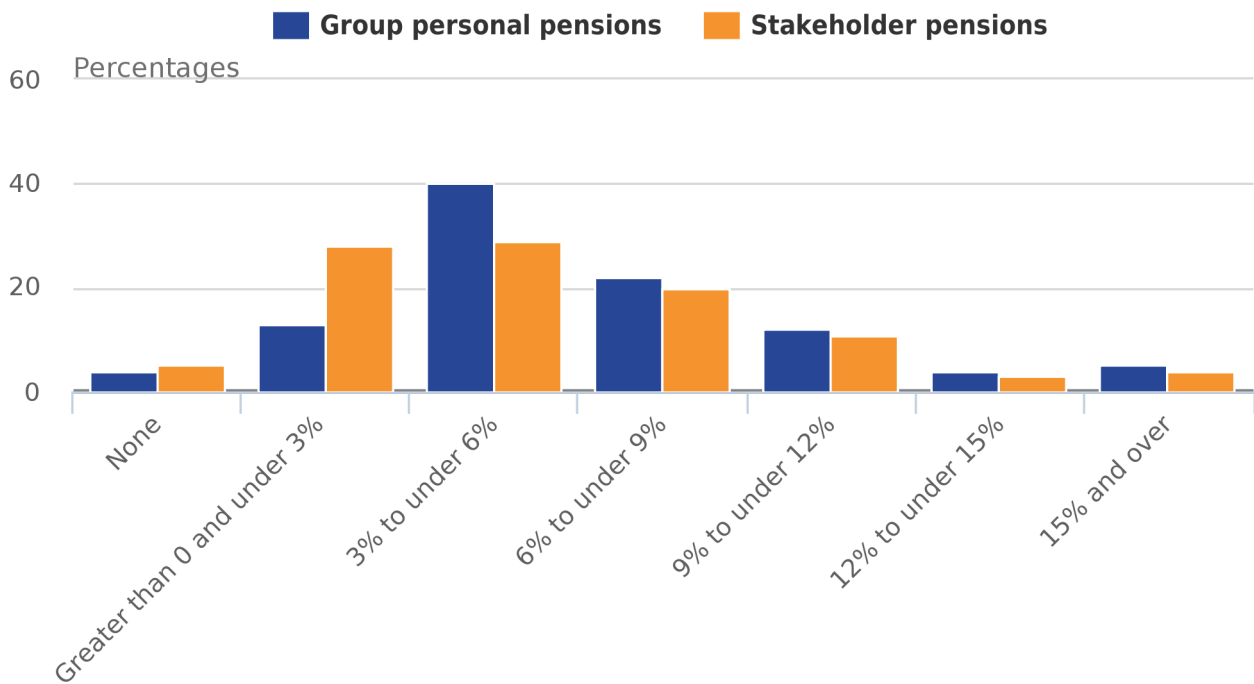
Source: Annual Survey of Hours and Earnings (ASHE) - Office for National Statistics

**Notes:**

1. Active membership of a pension that is arranged through an employer, main pension only
2. Contributions may include one-off fixed amount payments, but exclude employer contributions covering more than one employee
3. The private sector is classified using the legal status from the Inter-Departmental Business Register and does not include 'third sector' organisations such as charities
4. Data for Group Self-Invested Personal Pensions (GSIPPs) is included within the category Group Personal Pensions (GPPs)

**Figure 8.13: Distribution of employee members of private sector group personal pensions and stakeholder pensions where employer has 100 employees or more: by employer contribution rates, 2013**

United Kingdom



Source: Annual Survey of Hours and Earnings (ASHE) - Office for National Statistics

**Notes:**

1. Active membership of a pension that is arranged through an employer, main pension only
2. Contributions may include one-off fixed amount payments, but exclude employer contributions covering more than one employee
3. The private sector is classified using the legal status from the Inter-Departmental Business Register and does not include 'third sector' organisations such as charities
4. Data for Group Self-Invested Personal Pensions (GSIPPs) is included within the category Group Personal Pensions (GPPs)

**Total contributions to personal pensions**

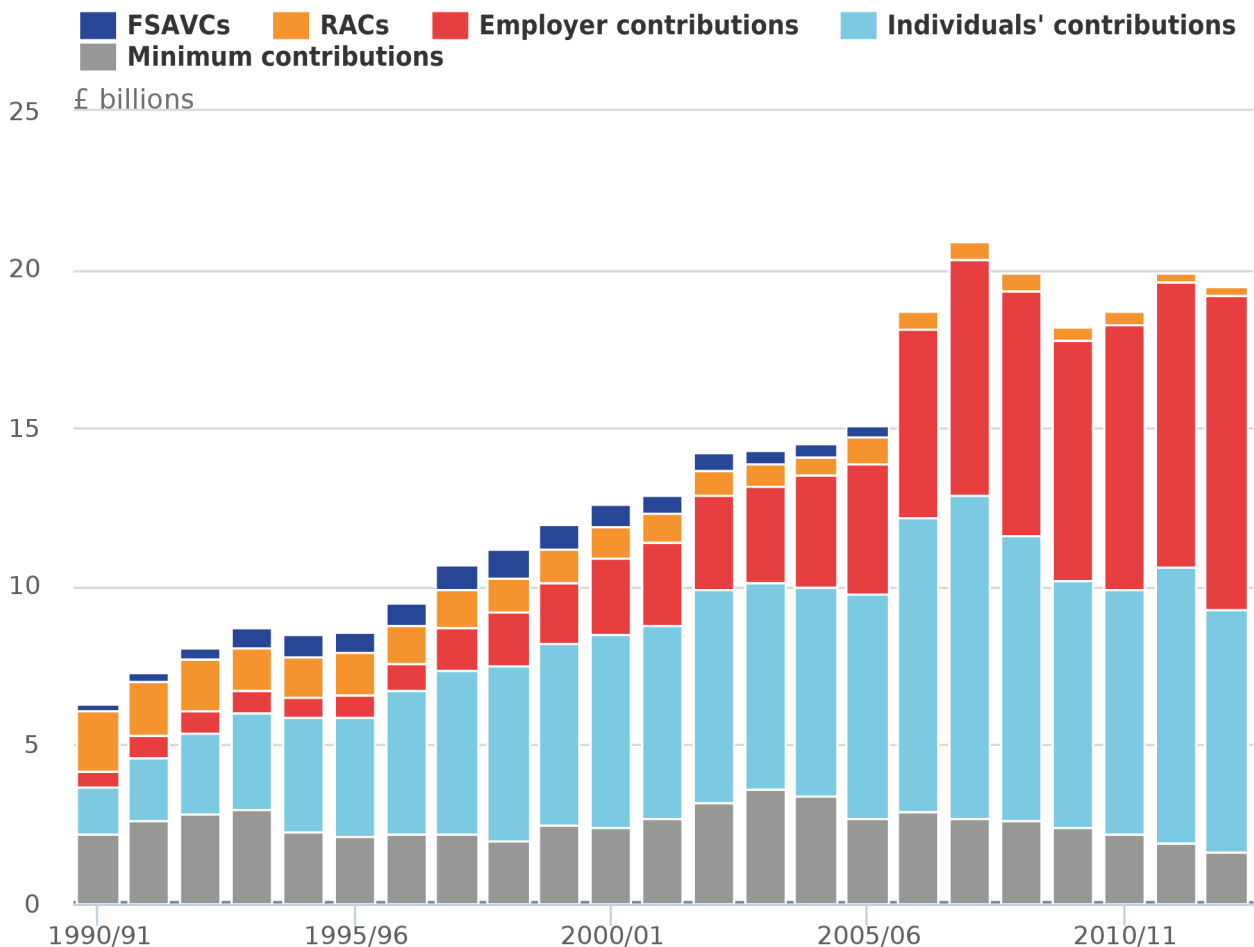
Her Majesty's Revenue and Customs (HMRC) publishes estimates of the number of people making contributions to personal and stakeholder pensions and average amounts contributed. All estimates of contributions are in nominal terms (values are not adjusted for inflation).

In 2012/13, the total number of individuals making contributions to personal and stakeholder pensions (whether individual or group personal pensions) was estimated to be 5.5 million. Of those, 4.9 million were employees, 0.5 million were self-employed people and around 0.06 million (60,000) were 'others' (children, people in full-time education, carers, the unemployed and those in receipt of a pension). There were more people contributing in 2012/13 than in 2011/12 (see [HMRC Table PEN3](#)). The average contribution per person was lower in 2012/13 (£3,510) than in 2011/12. For employees, the average contribution in 2012/13 was £3,490, down from £3,640 in 2011/12. For the self-employed, the average contribution was £3,760 in 2012/13, down from £4,250 in 2011/12.

For the self-employed, individual personal and stakeholder pensions are the main options for private pension saving. The self-employed may also join some master trusts (see [Pension Trends Glossary \(198.9 Kb Pdf\)](#) ). The self-employed also rely more on private pensions than employees as they do not have access to the additional state pension.

**Figure 8.14: Contributions to personal and stakeholder pensions by contribution type (minimum, employer or individual) and to RACs and FSAVCs, 1990/91 to 2012/13**

United Kingdom



Source: HM Revenue and Customs

Notes:

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
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) . The Pensions Act 2007 abolished the option for personal pensions to contract out of the additional state pension, with effect from April 2012
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. Self-Invested Personal Pensions (SIPPs) cannot be separately identified from the information collected by HMRC on personal pensions
7. All estimates of contributions are in nominal terms (values are not adjusted for inflation)



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 8.14 (for definitions see [Pension Trends Glossary \(198.9 Kb Pdf\)](#) ). Contributions to personal and stakeholder pensions consist of minimum contributions and contributions by employers and individuals (employees, the self-employed and non-earners). The figures include contributions to employer and non-employer sponsored personal pensions. 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. Personal and stakeholder pensions are flexible, allowing people to make contributions when they are able. Total contributions to personal and stakeholder pensions, RACs and FSAVCs reached £20.9 billion in 2007/08, but then fell during the recession, largely due to the fall in the number of people contributing to personal and stakeholder pensions. By 2011/12, they had increased to £19.9 billion, falling to £19.5 billion in 2012/13.

Employer contributions to personal and stakeholder pensions have seen increases in most years, reaching £9.9 billion in 2012/13 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, £7.8 billion in 2009/10 and £7.7 billion in 2010/11. In 2011/12, they had increased to £8.7 billion but then fell to £7.7 billion in 2012/13.

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. From 6 April 2006, FSAVCs are no longer separately identified and are included in individuals' contributions.

Minimum contributions reached £3.6 billion in 2003/04. By 2012/13 the level of minimum contributions, which represent contracted out rebates to individuals in contracted out schemes, was much lower at £1.6 billion. This is as may be expected given the ending of the ability to contract out (see section **Contracting out of private sector occupational pension schemes**).

## Notes for personal pensions

1. Available since 2001, stakeholder pensions are a flexible, portable, personal pension arrangement (provided by insurance companies) with capped management charges. They must meet the conditions set out in the Welfare Reform and Pensions Act 1999 and be registered with The Pensions Regulator. Self-invested personal pensions are a type of pension in which the policy holder rather than the pension company chooses the investments made.

# 7. Supporting information

## Workplace pension reforms

The [Pensions Act 2008](#) put in place a framework for workplace pension reform designed to increase private pension saving in the UK. This framework was amended slightly by the [Pensions Act 2011](#) and [Pensions Act 2014](#) . One of the key reforms was that, from October 2012, all eligible employees were to be automatically enrolled into a qualifying workplace pension scheme. These reforms represent a major change in the UK private pension system, aiming to extend coverage to the millions of employees without a private pension, in particular those in the target market of moderate to low earners. The reforms are designed to expand coverage of pensions to more people of working age.

Automatic enrolment is being introduced in stages, based on the size of the employers' PAYE scheme on 1st April 2012. Automatic enrolment started in October 2012 for employers with over 120,000 employees, with gradual roll-out to all employers by 2018.

In 2013/14, eligible employees were those aged between 22 and the state pension age, who earned more than £9,440 per year and were not participating in a workplace pension scheme.

Under automatic enrolment, employers select a pension scheme for their employees. Employers have a duty to enrol all eligible employees into a pension scheme meeting the qualifying requirements set out within the Pensions Act 2008 and 2011 and to make contributions to this scheme on their employees' behalf. This may be

an occupational or personal pension scheme provided that the scheme meets the qualifying requirements. Workers are able to opt out of their employer's scheme if they wish but, if they are still eligible, they will be re-enrolled after a three year period.

Minimum contribution levels are being phased in over the period to 2018. The minimum contribution levels vary depending upon the scheme's definition of pensionable pay.

In the case of a scheme with a definition of pensionable pay equivalent to that of qualifying earnings ('qualifying earnings' refer to earnings between £5,668 and £41,450 in 2013/14, see the 'Certification' section in the [TPR guidance for pension schemes under the new employer duties](#)) the minimum level of contributions, expressed as a proportion of the jobholder's qualifying earnings, are as follows:

- between October 2012 and September 2017 DC schemes or personal pensions must have contributions of at least 2%, with at least 1% coming from the employer
- between October 2017 to September 2018 the minimum contribution will be 5%, with at least 2% coming from the employer, and
- from October 2018 it will be 8%, with at least 3% coming from the employer.

The Pensions Act 2008 created the [National Employment Savings Trust](#) (NEST), a new trust-based Defined Contribution (DC) pension scheme, to assist employers with pension provision. Other separate trust-based arrangements, known as master trusts (see [Pension Trends Glossary \(198.9 Kb Pdf\)](#) ), have also been set up to facilitate automatic enrolment. A full list of Pension Quality Mark (PQM) ready master trusts is available on the [PQM website](#).

Employers who intend to use their existing schemes for automatic enrolment can use certification to show that their schemes meet the minimum requirements set out by the legislation and explained in the ["Preparing for auto-enrolment" guidance from the Pension Regulator \(TPR\)](#).

In November 2014, the Department for Work and Pensions published the [Automatic Enrolment Evaluation Report 2014](#). Estimates published within the evaluation report relate to those eligible for automatic enrolment only. Chapter 4 deals with 'increasing the amount of savings' and looks at contributions. Along with other topics, it discusses the concern that employers may reduce the contributions that they currently pay into pension schemes because they are obliged to contribute only the minimum amounts. This is referred to as 'levelling down'. This could also occur because employers may now need to contribute to a wider range of employees, increasing their costs if contribution rates remain unchanged. However, Chapter 4 of the evaluation report quotes data from the [Employer Pension Provision Survey](#) on how employers had so far dealt with the reforms and notes, for example, that the majority of automatically enrolling employers (92 per cent) chose not to alter their contribution rates for existing members of their workplace pension scheme.

## 8. References

1. Department for Work and Pensions, [Workplace pension reforms, Baseline evaluation report](#)
2. Department for Work and Pensions, [Automatic enrolment evaluation report 2013](#)
3. Department for Work and Pensions, [Automatic enrolment evaluation report 2014](#)
4. Department for Work and Pensions, [Employer Pension Provision Survey 2013](#)
5. HM Revenue and Customs: [Pension statistics](#)
6. Office for National Statistics, [Annual Survey of Hours and Earnings](#)
7. Office for National Statistics, [Occupational Pension Schemes Survey Statistical Bulletin](#)
8. Office for National Statistics, [Pensions short stories](#)
9. Office for National Statistics, [Pension Trends](#)
10. Office for National Statistics, [Pension Trends Glossary \(198.9 Kb Pdf\)](#)

11. Office for National Statistics, [Improved methods for calculating private pension contributions](#)
12. The Pension Protection Fund, [The Purple Book 2014](#)
13. The Pensions Regulator, [Automatic enrolment detailed guidance](#)

## 9. Background notes

1. Details of the policy governing the release of new data are available by visiting [www.statisticsauthority.gov.uk/assessment/code-of-practice/index.html](http://www.statisticsauthority.gov.uk/assessment/code-of-practice/index.html) or from the Media Relations Office email: [media.relations@ons.gsi.gov.uk](mailto:media.relations@ons.gsi.gov.uk)

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