

## **COST OF RUNNING A DEFINED BENEFIT SCHEME UP BY 37% YEAR ON YEAR**

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- Costs for smaller schemes 63% higher year on year

The Pensions and Lifetime Savings Association today (Wednesday) published its 42nd Annual Survey. The findings highlight costs for operating defined benefit (DB) schemes have increased by 37% in one year.

Since 2015, the mean running cost of DB schemes has increased by 37% from £400 to £546 per member. This is largely driven by increases in fund management and custody costs, up 32%. Smaller schemes, those with 5,000 or fewer members, have seen the greatest rise in running costs with an average increase of 63%, to £787 per member.

In 2016, only 10% of DB schemes were open to new members compared to 21% in 2015. That figure is only 4% in the private sector. Rising costs, as well as economic volatility and low interest rates, are proving key factors in the decision to close to new members.

Joanne Segars, Chief Executive, Pensions and Lifetime Savings Association, said:

“Our analysis highlights a continuing problem for DB schemes. Higher operating costs, especially for smaller schemes, combined with widening deficit levels mean DB schemes are under pressure as never before. We can’t ignore the resulting risk to members’ benefits for all but the most strongly funded schemes and for these members the risk is they will lose 15-20% of their benefits.

“Our DB Taskforce is currently collaborating across the pensions sector to develop recommendations on how we can change the industry to improve outcomes for members and schemes. Our Annual Survey clearly shows that the

running costs of a DB scheme is considerable for all schemes – and even greater for smaller schemes. With over 6,000 private sector DB schemes in the UK the Taskforce will explore the potential of scheme consolidation to deliver better value to scheme members and sponsors.”

Defined contribution (DC) schemes continue to grow, fuelled by the success of automatic enrolment. Master trusts have played a significant role in automatic enrolment and between June 2015 and June 2016, master trusts enrolled an estimated 1.8 million new members.

Within DC schemes the average employee contribution rates remain at 4.2% (same as 2015) and employer contribution rates sit at 7.9% (8.0% in 2015). Savers continue to benefit from low charges, with the average annual management charge of 0.4% as it has been for a number of years.

Further information on the DB Taskforce, along with a copy of the interim report, is available on the [PLSA website](#)

### **ABOUT THE SURVEY**

The survey was conducted between 6 June 2016 and 29 July 2016; 218 fund members completed the survey achieving a 31% response rate. The number of respondents is broadly in line with 2015 when 30% of fund members responded. Of fund members who responded in 2016:

- 164 had Defined Benefit schemes;
- 152 had Defined Contribution schemes;
- 4 were master trusts; and
- 32 were members of LGPS.