

27th September 2017

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Millions may lose promised pension payout

Three million savers in final-salary pension schemes only have a 50/50 chance of receiving the payouts they were promised, a study has concluded.

Some employers were under pressure to meet their pension obligations, the Pensions and Lifetime Savings Association (PLSA) said.

High-profile cases such as the BHS collapse have highlighted concerns over the future of workplace pensions.

The PLSA said one solution could be the pooling of resources into "superfunds". This would allow relatively small companies to pay a fee to transfer final-salary pensions to a larger fund - which would then have bigger investment opportunities.

A standard deal for pension scheme members could see some receive better final payouts as a result, but others could see their expected income deteriorate.

But pensions consultant John Ralfe described the superfund plan as "outrageous". He said there was "no crisis in defined benefit pensions, so there is no need for crisis measures" owing to a well-funded lifeboat system for collapsed schemes.

"The PLSA is trying to undermine all the safeguards put in place for members since the 2004 Pensions Act. It wants to turn the clock back to the days when companies could walk away from their pensions without fully funding them," he said.

The in-depth study by the PLSA considered the outlook for final-salary pensions used by 11 million people in the UK.

Employers have pumped in an extra £120bn in special payments to try to plug financial holes in these schemes, but the combined deficit of the UK's 6,000 schemes remains at £400bn.

The majority of final-salary schemes had a sustainable model for meeting future payouts, the PLSA said.

However, three million members of schemes faced a more uncertain financial future, it concluded.

Ashok Gupta, who chaired the PLSA review, said there was a "real possibility" of a collapse for more high-profile pension schemes, and so the report's many proposals needed to be considered.

"The industry and government need to grasp this opportunity and tackle serious flaws that threaten the security of people's retirement," he said.

Retirement delay

Pension saving has become automatic for most workers, owing to the government's automatic enrolment scheme, but there are still concerns about a lack of saving across all age groups.

Insurer Aviva estimated that two million older workers had dependent children or parents, and a third expected to delay retirement with others likely to reduce pension saving owing to the financial pressures involved.

"Many over-50s are shouldering the responsibility of putting their families' financial needs ahead of their own for a prolonged period of time," said Lindsey Rix, of Aviva. Aviva's survey did find that many older workers were staying on in employment owing to job satisfaction rather than financial need.