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Second Tier Pension Provision 1978/79 to 2000/01 (Full publication)

This release provides the latest estimates of contracted-out pension scheme membership and SERPS membership since people were first permitted to contract-out in 1978/79. The information shown in Table 1 was released in December 2003, ahead of the full publication which is released today.

General trends

- The number of people with second tier pension provision has risen from 17 million people in 1978/79 to 21.6 million by 2000/01. The proportion of women with second tier provision has increased steadily from the outset, rising from 25% of scheme members in 1978/79 to 45% of members by 2000/01.
- The number of contracted-out scheme memberships has increased by 59% since 1978/79. The largest increases were in the late 1980s and early 1990s when Appropriate Personal Pensions and Contracted-Out Money Purchase schemes were introduced. The increase in contracted-out membership levelled out in 1991/92, on reaching 13.6 million, and then went into a small decline. In more recent years the numbers have again started to increase, and by 2000/01 had reached 14.3 million.
- In 1978/79 SERPS accounted for 48% of all second tier pension cover, with private sector schemes and public sector schemes making up the remaining 32% and 20% respectively. By 1986/87 SERPS membership had risen to over 54%, while private sector membership had reduced to 25%. Membership of public sector schemes had increased slightly to 21%. With the introduction of Appropriate Personal Pensions (APPs) in 1987/88 membership of SERPS dropped to 38%. In the following years this reduced even further reaching a low of 31% in 1992/93. Since then the number covered by SERPS has increased and by 2000/01 had returned to 38%. The SERPS figures in this release replace those published in December and are slightly lower estimates. This is due to a minor methodological change that more accurately gives indication of those with cover. Otherwise all figures in tables 1.1, 1.2 and 1.3 are the same.

Scheme trends

- There are different trends within each type of scheme, as can be seen in the end of tax year memberships. Membership of private sector COSRS has declined steadily from 1978/79 onwards, dropping by 40% overall. This may be a reflection of the decline in certain industries that have traditionally provided a pension of this type, for example coal mining or heavy manufacturing. This would also account for the decline in the proportion of men in these schemes, - dropping from over 85% in 1978/79 to 65% in 2000/01. In absolute terms the numbers of men in private sector COSRS more than halved.
- Membership of public sector schemes has increased by 31% overall. The proportion of women has increased throughout the period, making up 34% of public sector scheme membership in 1978/79 and 60% by 2000/01. The increase may also be due, in part, to an increase in part-time employment. As more women than men work part time, this would have the effect of increasing the number of women scheme members.
- The number of Appropriate Personal Pension scheme members increased quickly throughout the late 1980s, with nearly 3.2 million members in the year they were introduced. The initial high take up rates in the late 1980s and early 1990s, was followed by a steady rise in membership, reaching 5.7 million by 2000/01. The majority, 64%, of these members are men.

- SERPS membership has seen the largest fluctuations over time. In 1978/79 there were 8.4 million people covered by the scheme. This increased to 9.7 million in 1986/87 but reduced dramatically with the introduction of APPs in 1987/88, reaching a low of 6.1 million by 1992/93. Since then membership increased steadily and by 1999/00 had reached 9.2 million. There was a small drop in 2000/01. Women accounted for 28% of SERPS accruals in 1978/79 and 50% of the membership by the early 1990s. In 2000/01 women made up 47% of SERPS members.
- The percentage of members that are current at the end of the year, but who terminate in the following year shows that around 10% of public sector COSR members could be expected to leave, compared to between 15% and 20% for private COSR members. Private sector money purchase schemes could expect between 25% and 43% of its membership to terminate.

Age distributions

- The age distribution for contracted-out scheme members current at the end of the year shows that there has been a steady decline in the number of members aged under 30. This may be due, in part, to the abolition in 1988 of the rules making it compulsory for new employees to join an occupational scheme. This decline, although apparent in both men and women, is more pronounced amongst women over the full period.
- Although the trend shows a consistent increase in the number of female memberships from 1978/79, the proportion of members aged under 30 declines quite sharply from 1991/92, indicating that there are fewer women from that age group joining schemes. In 1978/79 the under 30s represented 55% of female memberships, by 2000/01 this had declined to just 18%. The decline may also be due, in part, to there being more women in the early years of contracting-out (as a proportion of female employees) paying National Insurance contributions at the married woman's reduced rate and they were therefore not able to join a contracted-out occupational scheme. This is because women paying married women's reduced rate National Insurance contributions do not build up entitlement to SERPS and cannot, therefore, contract-out of it.
- The trends for men are quite different. The number of men in a contracted-out scheme increased steadily up to 1990/91, then declined until 1997/98 when the numbers started to increase again. The proportion of members under the age of 30 represented just 25% in 1978/79 and had declined to nearly 14% by 2000/01, a similar final proportion to that of women.
- The age distribution of those people covered by SERPS is different to that of contracted-out schemes, typically having a younger profile.

Earnings distributions

- The earnings of contracted-out scheme members (excluding APP scheme members) show that throughout the period between 65% and 80% of members fall into the top two earnings quartiles (where the earnings quartiles are defined in terms of the National Insurance upper earnings limit). The proportion of members in the lower earnings bands has increased steadily since the early 1990s, reaching 35% by 2000/01.
- The earnings of APP scheme members show a different trend. In all but the year in which APPs were introduced the majority of members have been in the bottom two earnings bands, rising steadily from 54% in 1989/90 to 67% by 2000/01. The increase in members with zero earnings is even more apparent, rising from 120 thousand in 1988/89 to over 2.3 million by 2000/01. However, this distribution is not as dramatic as it may at first appear, as a person remains a member of the APP scheme until they decide to close the scheme by contacting the Inland Revenue in writing with their decision. Also, a large proportion of these people are building up pension benefits from other sources.
- The earnings distribution of SERPS members shows that more members fall into the two lowest earnings bands, indicating that SERPS people in lower paid employment are less likely to opt for private second-tier pension provision.

Durations

- The average duration of occupational scheme members shows that people in a public sector COSR scheme are more likely to have higher average durations than private sector COSR members.

Notes to editors

This release provides the latest estimates on contracted-out pension scheme membership and SERPS membership since the introduction of contracted-out schemes in 1978/79. The figures show membership over time. The membership figures are not mutually exclusive and will include an element of double counting, reflecting 'membership' rather than 'people'. A person may be a member of a number of types of scheme at any one time, particularly if the person has a number of employments in the year, either running consecutively or concurrently. In this release we have included new figures for the number of people with second tier pension provision at the end of the year.

Figures in this release will be subject to revision in future years. Although this will have a negligible effect before 1998/99, the effect on the latest years may be greater. This is largely due to the time it takes to finalise accrued membership rights on termination and to determine how the person wants those rights preserved. We therefore expect the number of terminations to be the figures most affected. We have attempted to overcome this deficiency by estimating termination dates using the person's National Insurance contributions to the scheme as a guide to when membership actually ended. A detailed description of the methodology can be found in Appendix A of the Second Tier Pension Provision publication (Estimation of final figures). Because of this, the latest years' figures should be regarded as provisional.

Figures in this publication replace those previously published in 1997. Comparisons with the previous publication may not be appropriate as this release reflects the new methodology and a better understanding of the data. It is also the case that some memberships in the old publication may have been included erroneously. The new National Insurance Recording System (NIRS2) allows erroneous scheme memberships and contributions to be identified with greater accuracy.