Firms pump billions into pensions

Employers have spent billions of pounds propping up their final salary pensions over the past year, research suggests.

A survey of 280 schemes by Incomes Data Services' (IDS) said employer contributions had increased from £5.5bn to £8.2bn a year, a rise of 49.7%. Companies facing the biggest deficits had raised their pension contributions by 100% or more, IDS said. Many firms are struggling to keep this type of scheme open, because of rising costs and increased liabilities. A final salary scheme, also known as a defined benefit scheme, promises to pay a pension related to the salary the scheme member is earning when they retire.

The rising cost of maintaining such schemes has led many employers to replace final salary schemes with money purchase, or defined contribution, schemes. These are less risky for employers. Under money purchase schemes, employees pay into a pension fund which is used to buy an annuity - a policy which pays out an income until death - on retirement.

IDS said there were some schemes in good health.

But, in many cases, firms had been forced to top up funds to tackle "yawning deficits". The level of contributions paid by employers has increased gradually since the late 1990s. In 1998/99, for example, contributions rose by 4.7% and in 2002/03 by 8.6%. In contrast, between 1996 and 1998, some employers cut their contribution levels. Helen Sudell, editor of the IDS Pensions Service, said the rise in contributions was "staggering" and the highest ever recorded by IDS. "We have warned before that the widespread closure of final salary schemes to new entrants is just the beginning of a much bigger movement away from paternalistic provision," said Ms Sudell. "With figures like this there can be little doubt that many employers will have to reduce future benefits at some point for those staff still in these schemes."