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One million more workers face poorer retirements

Patrick Hosking, Financial Editor

A million people will be stripped of final-salary pension benefits over the next three years, according to research into the intentions of 250 large private sector employers.

Forty-eight per cent of employers that still run final-salary schemes for longer-serving staff plan to withdraw the benefit by 2012, Watson Wyatt, the consultants, found.

As a result, one million employees, mostly older and longer-serving employees, would be transferred to less generous defined contribution (DC) schemes. A further 28 per cent of employers will keep their final-salary schemes open but water down benefits in other ways, the survey found.

While most employers in the private sector have closed final-salary schemes to new recruits over the past ten years, only 9 per cent have also closed them to existing staff. That has left about 2.4 million employees who continue to clock up valuable benefits.

But the reluctance to close final-salary schemes completely is changing, with Barclays and IBM (UK) among blue-chip employers announcing plans in recent months to place all remaining staff in cheaper schemes.

Rash Bhabra, the head of corporate consulting at Watson Wyatt, said: "More and more employers are taking a long, hard look at the risks they run through their pension schemes and saying 'enough is enough'. What was once seen as the nuclear option is starting to become the norm."

Unlike inferior DC pensions, final-salary pensions are guaranteed. They can be worth 20 per cent to 40 per cent of base pay, far higher than the 5 per cent to 15 per cent of base pay that employers with DC schemes typically contribute on behalf of staff.

Poor investment returns and rising longevity have boosted the cost of running final-salary schemes and pushed most of them into deep deficit.

There is growing pressure on Royal Bank of Scotland and Lloyds Banking Group to examine ways of reducing the cost of their schemes, which together have 100,000 long-serving staff clocking up final-salary benefits while making no contribution themselves.

Final-salary schemes in the public sector remain largely untouched, with an estimated five million employees accruing benefits in active schemes.

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