



# NEWSLETTER

## EMPLOYER

January 2016



### Plumbing & Mechanical Services (UK) Industry Pension Scheme

Welcome to this special newsletter, which provides an update on the employee consultation about the proposal

to increase contribution rates. We have also taken the opportunity to give you more information about other changes that might affect you, such as the end to reduced rate National Insurance contributions from April 2016 and changes in pension accounting rules.

*Please send us your email address if you haven't already done so* (see our contact details at the end). We want to improve the way we communicate with you and this would really help us keep you up to date with information about the Scheme.

We hope we are answering your pension questions. If you have any questions or feedback, please get in touch with the staff at Plumbing Pensions. Your feedback is very welcome!

**Alan Pickering**  
Trustee Chairman

## OUTCOME OF THE EMPLOYEE CONSULTATION

**We wrote to you in September about proposed increases to the Scheme's contribution rates in April 2017 and April 2018. The Trustee Directors have reviewed and considered all the comments received during the two month consultation period, which ended on 30 November 2015. While there was some disappointment that the Scheme's contribution rates needed to go up, no alternative proposals were put forward.**

To ensure the money coming into the Scheme is enough to cover the cost of *future benefits* being promised, the Trustee Directors have therefore agreed that employer and employee contribution rates (expressed as a percentage of Earnings) will increase as set out in the table opposite.

If you do not want to increase your pension contributions, you will need to consult with

your employees about moving them onto a lower cost benefit scale with less generous benefits. You will need to listen to their views before making a final decision on what to do going forward. We will prepare generic communications to help you consult with your employees if you wish to move them to a different benefit scale.

If you cannot afford to increase the contributions that you pay but your employees want to pay higher pension contributions, they will be able to use the Scheme's Additional Voluntary Contributions (AVCs) arrangement. Any AVCs that your employees make will be invested in a stand-alone fund managed by Prudential. Your employees will be able to use these extra savings to supplement their retirement benefits from the Scheme when they retire.

Any change to an employee's benefit scale will only apply to *future benefits* built up in the Scheme. The pension credits earned up to now will not be reduced and will not be

Scale		Current	From April 2017	From April 2018
Basic	Employee	3.75%	4.6%	5.3%
	Employer	7.50%	9.2%	10.6%
2017	Employee	-	3.75%	3.75%
	Employer	-	7.50%	7.50%
H2	Employee	5.25%	5.9%	6.5%
	Employer	10.5%	11.8%	13.0%
H3	Employee	6.25%	7.3%	8.3%
	Employer	12.5%	14.6%	16.6%
H4	Employee	7.25%	8.5%	9.7%
	Employer	14.50%	17.0%	19.4%

### CONTACT DETAILS:

Please send us your email address and let us know when your personal details change. Please also get in touch if you have a question about your pension savings or if you would like a copy of any Scheme documents. You can email us:

[info@plumbingpensions.co.uk](mailto:info@plumbingpensions.co.uk)

Or call our telephone helpline on:

**08457 65 65 65**

Or write to us at:

**Plumbing Pensions (UK) Limited**  
Bellevue House, 22 Hopetoun Street, Edinburgh EH7 4GH

[www.plumbingpensions.co.uk](http://www.plumbingpensions.co.uk)

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## OUTCOME OF THE EMPLOYEE CONSULTATION

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affected if your employees move onto a different benefit scale.

You will need to communicate the outcome of the consultation with any of your employees who are eligible to join the Industry Scheme but who are not currently members. We enclose an announcement to help you with this.

A copy of the Scheme's new Schedule of Contributions with the higher contribution rates is also attached for your information.

## FUNDING VALUATION AT 5 APRIL 2014

The Scheme has a formal financial assessment (called an actuarial valuation) at least once every three years. The latest actuarial valuation was carried out as at 5 April 2014, and the actuary found that the assets were enough to cover 101% of the Scheme's liabilities. This calculation was performed on an ongoing basis, which assumes that the Scheme continues.

The actuary also reported on the financial position of the Scheme in the hypothetical situation that it had discontinued at 5 April

2014 and had to secure benefits with an insurance company. On this basis, the assets were estimated to cover around 77% of the liabilities at that date. This is lower than the ongoing funding level described above, as insurers are obliged to take a very cautious view of the future and need to make a profit. By contrast, the ongoing funding valuation assumes that the participating companies will continue in business and continue to contribute to the Scheme, which can therefore continue to invest in shares and other return-seeking assets.

## FUNDING UPDATE AT 5 APRIL 2015



An update was carried out on an approximate basis at 5 April 2015 by the actuary. Over the year from the formal valuation at 5 April 2014, the

funding position had fallen slightly such that assets covered 95% of liabilities at 5 April 2015. The decrease in the funding level from 101% to 95%

was mainly due to a decrease in the market's expectation of future investment returns which increases the amount of money that needs to be set aside now to meet future benefit payments. This was offset partially by higher than anticipated returns on the Scheme's assets over the year to 5 April 2015.

You should bear in mind that a pension scheme is a long term arrangement. The shortfalls mentioned above were in a hypothetical situation only.

## LEGISLATIVE CHANGES

### PENSION ACCOUNTING RULES

If you are required to file UK accounts and you use Financial Reporting Standard 102 (FRS 102), the reporting requirements have recently changed. We have produced an employer fact sheet to help you record your pension obligations in your company accounts. The fact sheet is available on request (see our contact details at the end).

### STATE PENSION STATEMENTS

The Government is introducing a new flat rate State Pension of £155.65 a week from April 2016, which will replace both the Basic State Pension and the State Second Pension (previously known as SERPS). Any employee reaching State Pension Age after 5 April 2016 will receive the new State Pension. The

Government plans to send State Pension Entitlement Statements to all UK residents of working age.

Your employees in the Industry Scheme will see a deduction on their State Pension Entitlement Statements. This is because the Industry Scheme has always contracted-out of the State Second Pension. As a result, you and your employees benefited from paying lower National Insurance contributions but your employees did not build up any entitlement to the State Second Pension. Instead, the Industry Scheme has a responsibility to pay members a benefit broadly the same as the pension they would have built up in the State system.

We are updating the member booklet to reflect changes in the State Pension. A new version will be uploaded to our website in due course.

### INCREASE IN NATIONAL INSURANCE CONTRIBUTIONS

When the new State Pension is introduced, the Industry Scheme will no longer be allowed to "contract out" of the State Second Pension. From 6 April 2016, the Industry Scheme will be "contracted in" to the new flat rate State Pension and will no longer benefit from reduced rate National Insurance contributions. This means that your National Insurance contributions will increase. From 6 April 2016, you will pay an extra 3.4% of earnings between the Secondary Threshold (currently £156 a week) and the Upper Accrual Point (currently £770 a week). The following table shows the increase in employer NI contributions for employees with different earning levels.

From April 2016, in return for paying higher National Insurance contributions, your employees will start to build up an entitlement to the new flat rate State Pension. The benefits that they receive from the Scheme are not changing.

### MINIMUM RETIREMENT AGE

The Government has announced that the minimum retirement age will increase from age 55 to age 57 in April 2028.

### MORE CHOICE ON RETIREMENT

Since April 2015, pension legislation has been relaxed giving individuals more choice over the way they take their retirement benefits. Most of the changes affect defined contribution (also known as money purchase) savings, where money is invested in a pot until retirement.

The Industry Scheme is a defined benefit scheme, which is different. The main change affecting members of our Scheme with small pension credit amounts, is that the limits on the amount of pension that can be commuted for a single cash lump sum have been increased. If you would like to find out more go to:

[www.pensionsadvisoryservice.org.uk](http://www.pensionsadvisoryservice.org.uk) or [www.moneyadviceservice.org.uk](http://www.moneyadviceservice.org.uk)

'Pension Wise' is a new free retirement guidance service available to anyone aged 50 or over with defined contribution pension savings, including AVCs. To find out more go to: [www.pensionwise.gov.uk](http://www.pensionwise.gov.uk)

### TAX RELIEF LIMITS

The Government has changed the way pension savings are taxed:

- The Annual Allowance (AA), which limits the amount you can save towards your retirement each year before incurring a tax charge, is reducing for high earners.
- The Lifetime Allowance (LTA), which is the amount of retirement savings you can make in your lifetime before incurring a tax charge, is reducing from £1.25 million for the 2015/16 tax year to £1 million for the 2016/17 tax year.

We are writing to the members in the pension scheme that may be affected by these changes to provide additional information. The Scheme cannot provide individual advice – we recommend that anyone who thinks they may be affected by the pensions tax changes seek independent advice.

Gross Salary	Estimate increase in NI contributions (per month)	Estimated increase in NI contributions (per year)
£15,000pa	£20	£234
£20,000pa	£34	£404
£25,000pa	£48	£574
£30,000pa	£62	£744
£35,000pa	£76	£914
£40,000pa & above	£90	£1084