

Proposed changes to the contribution rates in the Plumbing & Mechanical Services (UK) Industry Pension Scheme

The Trustee Directors are writing to you because you are a contributing member in the Plumbing & Mechanical Services (UK) Industry Pension Scheme (the Scheme).

The Scheme Actuary has advised, and the Trustee Directors have agreed, that the Scheme's contribution rates need to increase because they no longer cover the cost of the benefits being promised.

We appreciate that an increase in costs is never welcome. That is why the Trustee Directors are proposing that the contribution increase be spread over two years and that the first increase is deferred until April 2017.

If you do not want to pay higher contributions, it will be possible, by agreement with your employer, to use a new benefit scale which is being introduced with the same contribution rates as the current Basic Scale.

This document gives you more details about the proposal.

We hope you will find answers to any questions that you may have within this document. If, once you have read this document you still have questions, please use the contact details at the end.

*This document contains important information that affects you.
Please read it carefully.*



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

Providing Secure Pension Arrangements
Today and Into the Future

How much will I have to pay?

The proposal is that from 1 April 2017, both employee and employer contribution rates (expressed as a percentage of Earnings) will increase as set out in the table below.

Scale		Current	From April 2017	From April 2018
Basic	Employee	3.75%	4.6%	5.3%
	Employer	7.50%	9.2%	10.6%
2017^{new}	Employee	-	3.75%	3.75%
	Employer	-	7.50%	7.50%

Why do the contribution rates need to increase?

The Industry Pension Scheme is a Defined Benefit (DB) arrangement. Under this type of scheme, you receive benefits which are directly linked to your earnings and contributions throughout your career. The cost is shared between you (you pay 1/3rd) and your employer (they pay 2/3^{ds}).

In recent years, DB pension schemes have been under considerable cost pressure through a combination of factors including:

- people are living longer than previous generations, which makes pensions more expensive to provide; and
- changes in investment markets, including low interest rates and low yields on Government bonds, which reduces the investment returns the Scheme expects to receive in future.

The Trustee Directors carry out a full actuarial valuation at least every three years to check that the Scheme's finances remain on track to meet the benefits that have been promised and to check that the contribution rates for future service are appropriate.

For many years, the Scheme Actuary has reported that the Scheme's contribution rates were not sufficient to cover the cost of future service benefits, but the gap could be covered by the Scheme's assets achieving higher investment returns than assumed by the Scheme Actuary. However, at the latest valuation, the Scheme Actuary reported that it is no longer sustainable to leave contribution rates unchanged.

The Trustee Directors do not like asking you to contribute more, but it is important that the Plumbing Industry Pension Scheme is carefully managed to ensure there is enough money to pay everyone's benefits.

The Trustee Directors agree with the Scheme Actuary that the Scheme's contribution rates should increase, which is why we are writing to you now.

What if I don't want to increase my contributions?

Contribution rates do not have to increase.

If you don't want to increase the contributions that you pay, there will be a new benefit scale called the 2017 Scale which will cost the same as what you currently pay (3.75% of your Earnings).

Moving onto the new 2017 Scale will not affect the pension credits you will have earned up to April 2017. These benefits are protected and will not be lost. Moving onto a different benefit scale will only affect the pension credits that you earn from future service.

What is the new "2017 Scale"?

The new 2017 Scale will start in April 2017 when it is proposed that the first contribution increase takes effect. The contribution rates for the 2017 Scale will be the same as the current Basic Scale i.e. 3.75% of your Earnings. Your employer will contribute 7.5% of your Earnings.

The following table compares the key benefits of the Basic Scale with the 2017 Scale.

	Basic Scale	2017 Scale
Accrual rate	1.25% of Earnings	1.25% of Earnings
Pre-retirement bonuses	RPI ¹	CPI ²
Post-retirement increases	Lower of CPI ² & 2.5%	Lower of CPI ² & 2.5%
Spouse's pension on death before & after retirement	Yes	No
Lump sum payable on death in service	2 x Earnings	3 x Earnings

¹ RPI is Retail Price Inflation

² CPI is Consumer Price Inflation

No pension will be payable to a surviving spouse, civil partner or child in respect of your pensionable service on the 2017 Scale. However, your beneficiaries may still be entitled to a pension from the benefits you built up while you were contributing on the Basic Scale.

What do I need to do to use the new 2017 Scale?

If you would like to move onto the new 2017 Scale, this will need to be by agreement with your employer.

Why is an increase in contributions required when the Scheme is fully funded?

While the Industry Scheme was in a healthy financial position with regard to past service benefits when the Scheme Actuary last carried out an actuarial valuation in 2014, this is different to the position for future service.

It is important that the level of employer and employee contributions covers the cost of the future service benefits being promised. The Industry Scheme is not the only pension scheme needing to increase its contribution rates. However, we are relatively unique in allowing existing and new members to continue to earn new benefits. Many other pension schemes have decided to close to future service.

Can I stop contributing to the Scheme?

It is important to plan for the time when you might want to retire or reduce the hours that you work. The Industry Pension Scheme is one way of saving for your retirement. While you are a contributing member of the Scheme, your employer also pays contributions (currently 7.5% of your Earnings), which they would not do if you decided to stop contributing to the Scheme.

If you are considering stopping your contributions to the Industry Pension Scheme, we recommend you take independent financial advice because you may not be able to rejoin the Scheme at a later date. You can find an independent financial advisor at: www.unbiased.co.uk

Has this proposal been agreed and finalised? What happens next?

No, the proposed contribution increase has not yet been agreed or finalised.

The Trustee Directors have consulted and received agreement in principle to increasing the contribution rates from Unite the Union, the Association of Plumbing & Heating Contractors (APHC) and the Scottish & Northern Ireland Plumbing Employers Federation (SNIPEF).

However, before the Trustee Directors will implement a contribution increase, we are consulting with *all* contributing members on behalf of employers, to gather feedback and listen to member views. This employee consultation about the proposed increase in contribution rates commences on 1 October 2015 and runs until 30 November 2015.

The Trustee Directors will consider all the feedback received during the consultation process and report back to the Trustee Board at the next meeting on 8 and 9 December 2015. After the December meeting, the Trustee Directors will write to you to report on the outcome of the consultation.

Where can I get further information or send my comments?

Please send any questions, feedback or comments to:

Contribution Consultation
Plumbing Pensions (UK) Ltd
Bellevue House
22 Hopetoun Street
Edinburgh EH7 4GH

Or email: consultation@plumbingpensions.co.uk

Or call our helpline on: 08457 65 65 65

For further information, please take a look at the Plumbing Pensions website where we will post answers to commonly asked questions during the consultation period: www.plumbingpensions.co.uk