

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

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

The Trustee Directors are writing to you because you are a participating employer 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 and your employees do not want to pay higher contributions, it will be possible, by agreement, 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, how we plan to consult with employee members and what you, as a participating employer, need to do.

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.

How much will employers and employees have to pay?

The proposal is that from 1 April 2017, both employer and employee 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%
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%

Why do the contribution rates need to increase?

The Plumbing Industry Pension Scheme is a Defined Benefit (DB) arrangement. Under this type of scheme, employee members receive benefits which are directly linked to their earnings and contributions throughout their career. The cost is shared between employees (who pay 1/3rd) and employers (who pay 2/3rds).

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 employers and employees don't want to increase their contributions?

Contribution rates do not have to increase.

If your employees are on the Basic Scale and you and your employees 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 i.e. 3.75% of Earnings for employees and 7.5% of Earnings for employers.

If you have employees on the higher benefit scales, you may wish (with your employees' agreement) to consider changing the scale into which your employees contribute. For example, an employee on the H3 scale could be moved down to the H2 or Basic scale.

Moving onto the new 2017 Scale (or a lower benefit scale) will not affect the pension credits employees have earned up to April 2017. These are protected and will not be lost. Moving onto a different benefit scale will only affect the pension credits an employee earns 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 following table compares the key benefits of the 2017 Scale with the Basic 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

The contribution rates for the 2017 Scale will be the same as the current Basic Scale ie 3.75% of Earnings for employees and 7.5% of Earnings for employers.

What do employers and employees need to do to use the new 2017 Scale?

If you wish to move your employees onto the new benefit scale from April 2017, you will need to consult with your employees. Next summer 2016, we plan to issue generic employee communications to help you with this. You will need to tell us before April 2017 if you plan to use the 2017 Scale for any of your employees and you will be asked to confirm that you have carried out an employee consultation about the change.

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 employers just stop contributing to the Scheme?

If you want to cease your participation in the Industry Scheme, you will become liable under legislation to pay a Section 75+ employer debt, which could be a significant sum.

A Section 75 employer debt is a statutory payment that all employers in a multi-employer pension scheme must pay when they stop contributing. Until recently, the Industry Scheme has not been able to calculate Section 75 employer debts. We plan to write to you again in due course with more information about Section 75 employer debts.

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 can ratify or implement a contribution increase, an employee consultation must also take place. There are detailed statutory requirements on how an employee consultation must be conducted. Even though they are not required to do so, the Trustee Directors have decided to consult *all* contributing members on behalf of employers. In the next few days, the Trustee Directors will be writing to your employees who participate in the Plumbing Pension Scheme.

The employee consultation will commence on 1 October 2015 and run until 30 November 2015.

As a participating employer, you are required to consult with any of your employees who are eligible to join the Industry Scheme but who are not currently members. We have attached a generic communication that you can use to do this. You must give a copy of this communication to any of your employees who fall into this category by 1 October 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 and the contributing employee members to report on the outcome of the consultation.

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 will send you an announcement you can use.

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