

UNISON

*Response to
Centrica
Pension Changes
Consultation*

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UNISON represents well in excess of a million people working across our public services throughout the UK in local government, the NHS, education, social care, housing, policing, transport, utilities, community and environmental services. We represent approximately 25,000 members who work in the energy sector and 6,000 within Centrica itself.

This response is not seeking to argue about the case for change made by the company. Whilst we may have issues with the case for change we are not in a position to challenge this and Centrica are clearly seeking to implement a resolution to address its concerns.

Following receipt of your consultation document on proposed changes to the Centrica Pension Plan (CPP) and the Centrica Retirement Income Section (CRIS), UNISON surveyed our membership within these schemes and received the following feedback:

Positives:

- Our members value the retention of a good quality defined benefit pension scheme and Centrica's continued ongoing commitment to ensuring this
- Your decision to subsume the employer increase in National Insurance costs through the cessation of contracting-out is welcome and appreciated
- Centrica's commitment to make no further detrimental pension proposals (subject to any truly exceptional circumstances materialising) until 2019. This is welcome as is the proposal to scale back member contribution rates in the future should the funding position of the scheme and economic circumstances enable this

Negatives:

- It is clear that many of our members will simply not be able to afford the proposed 3% contribution increase and that a default contribution of 9% is simply unsustainable. Particularly given that members have already incurred an effective pension cost increase through the introduction of the new State Pension and the end of contracting-out
- It is felt there is a lack of optionality in CPP relative to CRIS
- The pensionable salary cap of £38,000 needs to be linked to an appropriate index such as salary growth or cost of living increases to maintain its relative value and to prevent an ever increasing cohort of membership exceeding it. It seems inherently unfair that the changes being proposed for the engineer scheme CEPS do not include the same threshold requirements.
- Proposed changes should not take effect until after April 2017 at the earliest so that members receive the full relative benefit of pay awards in their pension accrual

By far and away however the key concern our members have is their ability to finance the proposed contribution increases. This is essentially a 50% increase for many and if implemented will undoubtedly lead to many members opting out of the scheme on sheer affordability grounds, which will not help the overall scheme funding position or cash yield.

It is pretty obvious that someone earning £20,000 a year will find it much more difficult to afford a 9% contribution than someone earning £45,000 and to this extent we consider an across the board 3% contribution increase unfair as it disproportionately increases the probability of lower earners opting-out. Yet these are the very workers that need to save for their pension the most.

It also needs to be noted that higher earners benefit disproportionately from the higher rate of tax relief afforded to their pension contributions which makes their net contribution lower than lower earners which cannot be fair.

We do however acknowledge the fact that higher earners will be caught by the pensionable pay cap which helps to reduce this inequality cap. This however is a point of concern in so far as this group will suffer with the imposition of the cap when other Centrica/British Gas workers with similar earnings are not. We believe that the cap needs to have some form of indexation attached to it so that its value is maintained and it does not drag more and more workers into it.

The fact remains however that many lower earners will simply not be able to remain in the pension scheme if your proposals are implemented and to this extent we propose the following:

- Centrica undergo a full Equality Impact Assessment on these proposals measuring the relative value of the pension offering across all salary scales and take steps to address the conclusions to ensure equality for all scheme members
- Consideration is given to offering accrual rate optionality for CPP members (on a similar basis to CRIS) so they can remain in the scheme if they simply cannot afford to pay more into their pension
- Consideration is given to increasing the Normal Pension Age for future service for both CPP and CRIS members as a means of mitigating the proposed contribution increases

UNISON would also welcome the introduction of an appropriate index being applied to the pensionable salary cap as well as the implementation date of any changes being deferred until April 2017 at the earliest.

Needless to say, having been denied the right to enter into negotiations as the trade unions no longer have these rights on the staff schemes, we will be very disappointed if our members are not listened to and if the proposals are not amended to take account of their views.

Best Wishes



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