**The Work and Pensions Committee's inquiry on defined benefit pensions white paper**.

UNISON is the UK’s largest public sector trade union with approximately 1.3 million members. Around 600,000 are in Local Government and 450,000 in the NHSPS. We have significant membership in the private sector including energy water and transport sectors.

We have a wide range of members although a large proportion of members are low paid and female. We support our members in fighting to retain a level of Defined Benefit provision that will at least allow them an adequate income in retirement.

This response is focused on :-

The problem of over prudent assumptions killing DB provision for current workers and future generations

Empower trustees to question their advisors and consider a range of alternative assumptions.

DB schemes are good value for money

**Over prudent assumptions**

UNISON’s view is that many valuation assumptions are unnecessarily over prudent. The DWP Green paper shows clearly the decline in gilt yields over the last 20 years. For most schemes that did not hedge the risk the trustees should seriously consider basing the discount rate on the rate of return that assets held by the pension fund are prudently expected or assumed to generate over the life time of the scheme. This option is in the TPR guidance but often ignored by trustees.

The increase in interest rates has still not materialised however we have seen a period of significant asset growth in areas outside gilts and for most schemes we deal with the issue is not the value of the assets but gilt plus drive increase in the liabilities.

Basing it on gilts is artificially inflating deficits and future service costs for the sponsoring employer and members and leading to unnecessary closing of the schemes to new members and future benefit accrual.

In our experience the sponsoring employer often does not engage with the trustees over the appropriateness of the assumptions especially on the discount rate. We have seen examples where the sponsoring employer is content to pay more using the increase in costs as an excuse to close the DB scheme and save money by placing staff into DC schemes with a lower level of employer contribution and the likelihood of significantly lower benefits.

UNISON has commissioned independent actuarial advice that showed not only are changes often unnecessary but closing to new members and bringing in a DC scheme with an inadequate employer contribution represents bad value for money both for the employer and members.

**Empower trustees**

UNISON believes strongly in lay trustees who are more likely to be more committed to the long term success of the scheme. They need to be given more support to challenge and question the advice they are getting from their advisors. This could b e in the form of further guidance from TPR and a requirement to seek further opinions where the sponsoring employer is putting pressure on them to close the scheme and reduce future benefits.

UNISON calls for an independent review to consider the evidence and recommend how DB schemes, especially those still open to new members, can be supported where the sponsoring employer covenant is sufficient to retain the open scheme

UNISON believes that many DB schemes have been closed unnecessarily for non financial reasons. Flexibilities should include the possibility of reopening the schemes to new members again through consultation with members, trustees and the sponsoring employer.

We are concerned that some advisors recommending a switch from DB to DC have a conflict of interest where their parent or partner company is able to bid to provide the replacement DC scheme. This is a conflict of interest that should be investigated by the TPR.

**DB schemes are good value for money**

The key problem with a DC arrangement is the size of contributions needed to provide a realistic chance of providing equivalent benefits to a DB scheme. The nature of a DB scheme means the overall contribution rate can be much lower than that required individually to provide the same benefits.

An actuary was commissioned to illustrate the size of the problem using standard tables for valuing DC arrangements to calculate the combined contribution needed at different age bands. These figures are based on a 1/64th accrual rate that reflect the value of a 1/80th pension accrual plus a 3/80th lump sum (not a particularly generous accrual rate)

First table is based on Spouses pension but not post retirement pension increases

Second table based on spouse’s pension and post retirement increases

|  |  |  |
| --- | --- | --- |
| **Member age at entry** | **Contribution (% of Salary )** | **Accrual rate** |
|  |  |  |
| 25 | 18.43% | 1/64 |
| 30 | 20.04% | 1/64 |
| 35 | 21.76% | 1/64 |
| 40 | 23.55% | 1/64 |
| 45 | 25.42% | 1/64 |
| 50 | 27.39% | 1/64 |
| 55 | 29.46% | 1/64 |
|  |  |  |
|  |  |  |
|  |  |  |
| **Member age at entry** | **Contribution (% of Salary )** | **Accrual rate** |
| 25 | 33.51% | 1/64 |
| 30 | 36.12% | 1/64 |
| 35 | 38.84% | 1/64 |
| 40 | 41.64% | 1/64 |
| 45 | 44.53% | 1/64 |
| 50 | 47.52% | 1/64 |
| 55 | 50.64% | 1/64 |

The member has to make their own investment decisions that are likely to have to be far more defensive than if the risk was pooled as in a DB arrangement.

The charges that are being put on DC schemes especially the hidden charges like transaction costs are coming increasingly under the spotlight from the FDA.

The value of the notional pot in a DB is going to be far higher in nearly every case and the member and employer will have paid less for it.

UNISON is concerned that recent examples of corporate failure as in the case of Carillion will create an even more prudent environment. For most of the employers that we deal with where the covenant is strong or tending to strong should be sufficient to allow technical assumptions that reflect more the asset base of the scheme and then a repayment period that can be spread over 15 to 20 years.

It is a fine balance between protecting accrued benefit against the loss of pension expectation for current members and future generations.

UNISON has worked on many scheme closures and schemes changes. Recently on a number of Universities that are closing /worsening pension provision for their lower paid ancillary staff. In nearly every case we are of the view that closures could have been avoided. We are happy to share our case studies with the committee.

Glyn Jenkins

Head of Pensions

UNISON

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