July 2017

Employer News Bulletin

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

THIS BULLETIN CONTAINS IMPORTANT INFORMATION THAT COULD AFFECT YOUR BUSINESS.

You are receiving this bulletin because the Trustee believes your business is affected by Section 75 Employer Debt Legislation.

This is a complex subject and you may need independent professional advice to help you understand how this issue might affect you.

The Scheme's Trustee Directors (the "Trustee") are writing to all employers who have participated since 2 September 2005 in the Plumbing & Mechanical Services (UK) Industry Pension Scheme (the "Scheme") to provide an update. We wrote to you in April 2016 and June 2016 to consult on a proposed approach to calculating Section 75 Employer Debts and we sent you a brief update in January 2017.

Employer Consultation on Section 75 Employer Debt

The Trustee wishes to thank everyone who responded to the consultation. We hope you found the consultation materials and the regional meetings useful. We received feedback and queries from over 500 employers and advisors.

The Trustee has considered all the feedback received during the consultation and decided to amend its original proposal to more closely align the calculations to the legislation and reduce the approximations made. This change will make the calculations more costly and time consuming but it addresses the points raised by a number of the respondents.

The Trustee has instructed a senior Scottish lawyer called a "QC" to provide a legal opinion on the revised calculation approach. Once the Trustee has this final legal advice, the Scheme Actuary will be able to start doing calculations to certify employer debts that have been triggered. This process may not start until the end of 2017 because the Scheme Actuary wants to use the latest membership data from the April 2017 update.

In the interim, the Trustee will write to all employers that have triggered a Section 75 Employer Debt since September 2005, to inform them of such. You will have an opportunity to respond if you believe the Scheme's records are incorrect.

We strongly advise employers to seek professional advice. Section 75 Employer Debt legislation if triggered has major ramifications for businesses.

Lobbying

Thank you to everyone who contacted their local MP to lobby for changes in the law to make the Section 75 employer debt legislation fairer to multi-employer pension schemes such as our own. The government reshuffle following the June 2017 elections means Richard Harrington has been replaced by Guy Opperman as the Pensions Minister.

The Trustee has met the Pensions Regulator and government officials at the DWP several times over the last twelve months to discuss the impact the legislation has on employers in the Scheme. We are working to find a solution that helps employers and protects member benefits. We particularly hope to:

- Help unincorporated businesses incorporate without triggering a Section 75 Employer Debt (including help for incorporations that may already have occurred);
- Make the calculations fairer by reviewing how orphan liabilities are treated;
- Allow employers to stop accruing new benefits without triggering a debt;
- Allow employers to pay a Section 75 Employer Debt in instalments.

The Government understands the issues and wants to help but finding a solution is not straightforward because changes might impact other pension schemes.

The Government recently issued two consultation documents:

1. Green paper with ideas on how to ensure the security and sustainability of defined benefit (DB) pension schemes like the Plumbing Pension Scheme,
2. Draft section 75 Employer debt amendment regulations, which introduce a new "deferred debt arrangement" option for employers (see next section).

The Government is currently reviewing the responses it received to these consultations. It is unlikely that final regulations or a White Paper (which usually follows a Green Paper) will be available before Autumn 2017.

The remainder of this newsletter applies to Companies with active members in the Scheme.

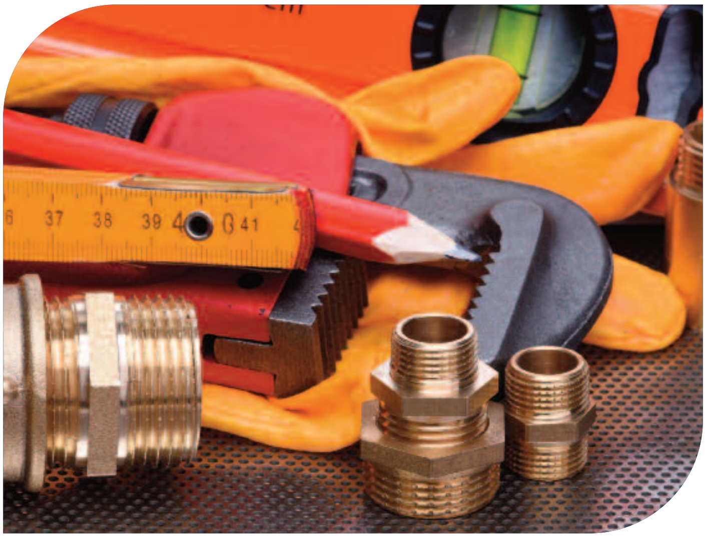
Deferred Debt Arrangement

The Government recently consulted on a new option for employers in multi-employer DB pension schemes. If it goes ahead, employers may be able to defer payment of a Section 75 Employer Debt when an Employer Cessation Event occurs. An Employer Cessation Event is when an employer ceases to have active members in the scheme, while another employer continues to have active members. In terms of the draft regulations, certain conditions must be met for a deferred debt arrangement including:

- From a funding perspective, the Scheme should be no worse off;
- The company requesting it is not winding up;
- The Trustee must agree to the arrangement;

  and
- The Employer retains its financial responsibilities to the Scheme, including the requirement to make recovery contributions if there is a funding shortfall (a funding shortfall arises when the Scheme's assets are not sufficient to meet the expected cost of the pension benefits).

The draft regulations can be found here: www.gov.uk/government/consultations/the-draft-occupational-pension-schemes-employer-debt-amendment-regulations-2017.



SNIPEF's Proposal to close the Scheme to future accruall

The Scottish and Northern Ireland Plumbing Employers Federation ("SNIPEF") recently asked the Trustee to close the Scheme to future pension accrual. A decision like this requires the agreement of the Trustee, the Association of Plumbing and Heating Contractors (the APHC) and Unite the Union. The Trustee understands the importance of affordability to employers so as part of the 2017 funding valuation the Trustee plans to look at different scheme design options.

2017 Funding Update

Every three years, the Scheme Actuary carries out a financial assessment of the Scheme, to check the Scheme holds enough assets to meet the expected pension payments. The next formal assessment will be carried out with an effective date of 5th April 2017. It is important that you return your data to the Administration Team promptly this year so the Scheme Actuary can begin work on the calculations.

The main purpose of the funding assessment is to check whether the Scheme's pension contribution rates remain appropriate. The pension contribution rates for the Basic and Higher benefit scales increased in April 2017 and will increase again in April 2018 (see table below). It is possible the pension contribution rates may need to increase again in the future to ensure they cover the cost of providing future benefits.

Scale		From April 2017	From April 2018
2017	Employee	3.75%	3.75%
	Employer	7.50%	7.50%
Basic	Employee	4.6%	5.3%
	Employer	9.2%	10.6%
H2	employee	5.9%	6.5%
	Employer	11.8%	13.0%
H3	Employee	7.3%	8.3%
	Employer	14.6%	16.6%
H4	Employee	8.5%	9.7%
	Employer	17.0%	19.4%

If the Actuary's calculations show a funding shortfall, the Trustee and employers will need to agree a Recovery Plan. A funding shortfall arises when the Scheme's assets are not sufficient to meet the expected cost of the pension benefits. A Recovery Plan sets out how the Trustee and Employers will correct a funding shortfall, which may require payment of extra contributions.

We will write to participating employers in spring 2018 once the results of the 2017 funding valuation are available.

Employer Covenant Review

The Trustee needs to make sure employers can afford to fund the Scheme. The Trustee uses KPMG to analyse the trading environment and the financial strength of employers in the Scheme i.e. the "Employer Covenant". The Scheme has a range of employers, from very big companies to small businesses with no publicly available financial data. To help us understand the employer covenant, we plan to ask all employers who do not submit accounts to Companies House to provide some basic financial data each year.

Increasing the security of member benefits

The Trustee has spent considerable time working on ways to control and reduce risk in the Scheme, to reduce the likelihood of a funding shortfall arising. The Trustee recently agreed to exchange the government and corporate bonds and a small proportion of the company shares it was holding for a bulk annuity policy with Legal & General. This is a sizable transaction in the UK market and you might read about it in the financial news.

New Administration System

The Administration Team is upgrading their pension administration system to improve the service provided to members and employers. In future, employers will need to submit earnings, contributions and membership data monthly using a secure web-portal. Contributions should be paid electronically direct to the Trustee's bank account.

We will write to you with further details on how these changes will affect your company in the autumn. We hope to make the transition process as smooth as possible.

Future Updates

We will provide a further employer update in the autumn. It is worth noting that the website has been updated to provide information relevant to employers www.plumbingpensions.co.uk.

If you have any queries, questions or comments, please contact us:

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