



Plumbing Pensions

November 2018

Employee Consultation Proposed Changes to the Scheme: Higher Benefit Scales



This document contains important information for contributing employees and employees eligible to join the Scheme.

Please read it carefully.

The Trustee manages the day to day operations of the Plumbing & Mechanical Services (UK) Industry Pension Scheme (the "Scheme"). Members of the Trustee board are nominated by the Constituent Organisations (see below) and also two professional pension trustees. No matter who selects the Trustee board members, the Trustee's role is to manage the Scheme and its benefits.

The Trustee is considering whether to close the Scheme to future benefit accrual from 30th June 2019.

If the Scheme closes to future benefit accrual, the Scheme will continue to pay benefits earned before 30th June 2019 but:

- Employees will not build up any further benefits or pay any further contributions to the Scheme after 30th June 2019. No new members will be able to join the Scheme. This is called 'closing the Scheme'.
- There will be certain other changes to the death benefits payable from the Scheme, as summarised in the **key benefit changes** section of this booklet.
- Employers must auto enrol employees into an alternative pension arrangement that, if applicable, meets the Joint Industry Boards' National Working Rules.

Please read this leaflet carefully because it contains important information about what would happen to your benefits in the Scheme if the closure goes ahead.

You should also read the information from your employer about the alternative pension arrangement they plan to use if the Scheme closes.

Background on the Scheme

The Scheme is very large with assets of over £2 billion and over 35,000 members, including around 3,000 contributing members who are building up new benefits. The Scheme currently has over 360 participating employers.

Every three years, the Scheme Actuary carries out a financial health check for the Scheme, which is called an 'actuarial valuation'. The health check aims to answer two questions:

1. Are the Scheme's assets sufficient to pay the benefits already promised to members?
2. Are future pension contributions sufficient to cover the cost of new benefits earned in the future?

The good news is that the Scheme Actuary's calculations show that the Scheme has enough money to cover the benefits members have already built up. However, because the investment returns the Scheme expects to receive in future are so low, the cost of providing new benefits has gone up significantly. This means that the contribution rates paid by employers and employees need to increase significantly.

In response to this, the Trustee and the Constituent Organisations have considered different options such as reducing or changing the benefits that employees build up in future or increasing the contributions that employers and employees pay.

When changes to the Scheme are required, these require the agreement of the three Constituent Organisations and the Trustee. The Constituent Organisations are:

- the Association of Plumbing & Heating Contractors;
- the Scottish & Northern Ireland Plumbing Employers' Federation;
- Unite the Union.

Employer consultation

Over the winter, employers are consulting their employees about the Trustee's proposal to close the Scheme. Your employer will write to you separately to tell you about the alternative workplace pension arrangement they plan to use for you from 30th June 2019 if the Scheme closes. Your employer should give you certain information about your new pension arrangement, including:

- how it works
- the pension contribution rates for you and your employer
- your investment options
- your expected retirement benefits
- the benefits payable if you become too ill to work or die
- any charges that could be deducted from your contributions and investment funds

It is important to note the following:

- 1. Your Scheme benefits already built up to the point of closure are protected by law and by the Scheme's rules.***
- 2. All benefits will be preserved and revalued each year in line with the Scheme's rules.***
- 3. Benefits already being paid to pensioner members and their beneficiaries are not affected by this proposal.***
- 4. Any Scheme members who are not currently contributing but haven't taken their benefits yet (also known as deferred members) are also not affected by this proposal.***

Legislation requires employers to consult affected employees for a period of 60 days to give you sufficient time to consider the proposal, understand how it affects you and to allow you to respond with questions or comments if you choose to do so.

You will find answers to commonly asked questions at the back of this booklet and on the Scheme website: **www.plumbingpensions.co.uk/members/closure-consultation**

If you are represented by a Union, you may wish to contact them for help on how the Scheme closure affects you.

Why change is necessary

The Scheme Actuary has told the Trustee and Constituent Organisations that using a prudent set of assumptions, the Scheme is expected to have enough money to provide all the future expected benefit payments for benefits built up to the most recent valuation date, which was 5 April 2017. This is known as being 'fully funded'. This relates to existing benefits already built up under the Scheme.

However, using prudent funding assumptions, significant increases are required in the contribution rates that employees and employers must pay to maintain the current level of benefits. This is for new benefits that have not yet been built up under the Scheme. Examples are set out in the table below:

Benefit Scale	Contribution rates	Current	Required
2017 Scale	For employees	3.75%	6.8%
	For employers	7.5%	13.6%
	Total	11.25%	20.4%
Basic Scale	For employees	5.3%	9.8%
	For employers	10.6%	19.6%
	Total	15.9%	29.4%
H2 Scale	For employees	6.5%	11.3%
	For employers	13.0%	22.6%
	Total	19.5%	33.9%
H3 Scale	For employees	8.3%	13.0%
	For employers	16.6%	26.0%
	Total	24.9%	39.0%
H4 Scale	For employees	9.7%	14.8%
	For employers	19.4%	29.6%
	Total	29.1%	44.4%

The Trustee, the Constituent Organisations and participating employers believe the contribution increases required would be unaffordable for many employees and employers (even if they were shared differently), which is why the Trustee is considering closing the Scheme. The Trustee and Constituent Organisations have considered and at this stage discounted the following alternative options:

- *Changing the 2:1 contribution sharing ratio:* This option was not chosen as it was felt that even if employees paid a greater share of the cost, the level of contributions required were still likely to be unaffordable to many employees and employers.
- *Reducing the benefits provided:* This option was not chosen as it was felt the level of retirement benefits that could be provided by maintaining current contribution levels would not be sufficient.
- *Introducing a defined contribution section:* New defined contribution arrangements can be expensive to set up and run. This option was not chosen because following investigation it was not considered financially viable for the Scheme to operate.

Key benefit changes

The table below summarises the Scheme's key benefits and how they would change for contributing members if the Scheme closes to future benefit accrual from 30th June 2019.

You will find some benefit illustrations at the end of this booklet to help you understand how your retirement benefits might change if the closure goes ahead.

Benefit	Status	Current	After closure
Member pension	Change	Pension credits continue to build up in the Scheme	No further pension credits will build up in the Scheme
Member pension	No change	Pension credits revalue before Normal Retirement Date in line with Scheme rules	Pension credits revalue before Normal Retirement Date in line with Scheme rules
Spouse's pension¹	Change	50% of member's pension (minimum of £22 a month)	50% of member's pension (no minimum)
Children's pension²	Change	Payable if a member who is paying contributions dies (up to a maximum of four children)	None payable
Incapacity pension	No change	Unreduced member pension, subject to Trustee discretion	Unreduced member pension ³ , subject to Trustee discretion
Lump sum on death	Change	Basic Scale: 2 x Earnings ⁴ 2017 Scale: 3 x Earnings ⁴ H2 Scale: 3 x Earnings ⁴ H3 Scale: 3.5 x Earnings ⁴ H4 Scale: 4 x Earnings ⁴	Return of member pension contributions with interest. Please note this is likely to be significantly less than the death benefit payable while you are a contributing member.
Lump sum on retirement	No change	Members can choose to give up pension in exchange for a tax-free lump sum	Members can choose to give up pension in exchange for a tax-free lump sum

Please note that the above table is intended to be a guide only and your entitlement is conferred by the Scheme's Rules. In the event of any inconsistency with the above table, the Rules will prevail.

¹ No spouse's pension is payable for any pensionable service on the 2017 Benefit Scale

² No children's pension is payable for members on the 2017 Benefit Scale

³ While you work for your Scheme employer

⁴ If you die on or after Normal Retirement Date, the lump sum will not be less than the pension that would have been payable if you had retired immediately before your death and survived five years, plus the maximum lump sum you could have taken had you retired immediately before your date of death.

What happens next?

Your employer must give you sufficient information to help you understand how your pension benefits might change. Your employer should consult with you for at least 60 days and the consultation process should be completed by 31st March 2019. A final decision will not be taken by the Trustee or the Constituent Organisations until employer and employee feedback has been fully considered in April 2019.

Whatever is decided, the Scheme will continue to pay the benefits that members have already built up and the Trustee will work with the Constituent Organisations, participating employers and members to balance the complex and unpredictable factors that affect everyone saving for retirement.

Providing feedback

Feedback on the Scheme closure proposal should be sent to your employer.

Answers to commonly asked questions are provided on the following pages.

If you have any questions about your benefits in the Scheme you can contact us:

Website: **www.plumbingpensions.co.uk/members/closure-consultation**

By email: **consultation@plumbingpensions.co.uk**

By phone: **03457 65 65 65**

Commonly Asked Questions

1. **Why are you proposing to close the Scheme?**

The Trustee, employers and Constituent Organisations believe the increase in pension contributions required to keep the Scheme open would be unaffordable, even if the cost was shared differently between employers and employees. Closing the Scheme to future benefit accrual would allow the Trustee to manage the Scheme prudently and make sure members receive the benefits they have already built up.

2. **What can I do if I don't want the Scheme to close?**

You should provide feedback to your employer. The Trustee and Constituent Organisations will consider all feedback received during the employer consultations before reaching a final decision.

3. **Why do pension contribution rates need to increase again?**

Member and employer contributions are invested to fund future pension payments. The level of investment returns the Scheme expects to get in future has reduced since the last review in 2014, which means more money must be set aside now.

4. **Is the Scheme in trouble?**

No, the Scheme is not in trouble. The Scheme Actuary has told the Trustee that the Scheme is expected to have enough money to pay all members' benefits in full based on the assets held by the Scheme and the investment returns expected from those assets in future, which is excellent news. However, the Trustee cannot allow members to build up new benefits without increasing the pension contribution rates to reflect the true cost of providing those benefits.

5. **What happens next?**

The Scheme Trustee has asked employers to consult their employees about the Scheme closure proposal before 31st March 2019. Employers will provide consultation feedback to the Trustee to consider in April 2019 before the Trustee decides whether to proceed with the Scheme closure. Any changes to the Scheme's benefits and contribution rates require the agreement of the Constituent Organisations and the Trustee's consent.

6. **When is the Scheme likely to close?**

The proposal is that the Scheme closes to future accrual no sooner than 30th June 2019. The actual closure date if the proposal goes ahead will depend on the time it takes to reach agreement on the legal changes required and the time it takes employers to put in place alternative pension arrangements.

7. What pension will I get in future?

If the Scheme closes, shortly after the closure date you will receive a statement showing the Scheme benefits that you built up to the closure date. Your benefits in the Scheme will be preserved for you and revalued each year until you retire, reach age 65, die or transfer them to a different pension arrangement.

If the Scheme closes, you will not build up any new pension benefits in the Scheme after 30th June 2019. The pension benefits you build up in future will depend on what new pension arrangement your employer chooses to put in place for you.

8. What happens to my benefits in the Scheme?

If the Scheme closure goes ahead, it will only affect the pension benefits you earn after 30th June 2019. Member and spouse's (where relevant) benefits earned up to the point the Scheme closes are protected by law and the Scheme's Rules and can't be reduced. Your Scheme benefits will be paid when you retire, die or choose to transfer them to a different pension arrangement.

9. I was about to retire. How does the Scheme closure affect me?

You can still retire and draw your Scheme pension. You should use the contact details in this leaflet to request a retirement quote. If your retirement date is after the Scheme closes to future accrual, you will not build up any further benefits in the Scheme after it closes. If you join the new pension arrangement your employer puts in place for you when the Scheme closes, you will also receive retirement benefits from that pension arrangement.

10. What happens if in future I am too ill to work?

If you are too ill to work for your Scheme employer and you have not yet reached Normal Retirement Date (your 65th birthday) you may be able to take early retirement on incapacity grounds with Trustee consent. This would not change after the Scheme closes to future accrual. You can find further details about incapacity pensions in the Scheme booklet.

11. What happens if I die?

If you die after the Scheme closes but before you retire the following Scheme benefits would be paid to your dependents:

- A spouse's pension based on 50% of the benefits you have built up in the Scheme. (No spouse's pension is payable in respect of contributions paid on the 2017 Benefit Scale.)

- A lump sum of the contributions you have paid into the Scheme plus interest.
Please note, this could be significantly lower than the death benefit payable if you died while you were a contributing member.

Your employer may put in place a new life insurance arrangement for you, which could provide additional benefits if you die.

12. Can I transfer my Scheme benefits to my employer's new pension plan?

Yes. If the Scheme closes you will become a deferred member and your benefits built up to the date of closure will be preserved for you and revalued each year until you retire, reach age 65, die or decide to transfer them to a different pension arrangement. Further information about transferring your Scheme benefits to a different pension arrangement will be sent to you if the Scheme closure goes ahead.

13. What are the risks of transferring out of the Scheme?

Transferring your benefits out of the Scheme is an irreversible decision. If you are considering a transfer, you should take independent financial advice. Beware of anyone who offers you a deal which seems too good to be true. Pension scammers will do whatever it takes to get their hands on your retirement savings. You can find out how to spot the signs of a pension scam and protect yourself against fraudsters by visiting the Pensions Regulator's website: www.thepensionsregulator.gov.uk/pension-scams

14. What happens if the Scheme runs out of money?

The Trustee has a responsibility to manage the Scheme's assets carefully to make sure there is enough money to pay all member benefits. The Scheme pays annual contributions to the Pension Protection Fund (the "PPF"), which is a lifeboat scheme for UK occupational pension schemes. If a pension scheme doesn't have the support of a solvent employer and doesn't have enough money to pay all members' benefits in full the PPF will take over responsibility for paying members' pensions.

The Scheme is not in this position. The Scheme Actuary has said there is expected to be enough money to pay all members' benefits in full based on the assets held by the Scheme and the investment returns expected from those assets in future.

After the Scheme closes to future accrual, the Trustee remains responsible for managing the Scheme's assets so that all members receive the benefits they were promised. Employers are still required by law to pay extra contributions if the Scheme's assets are less than the estimated liabilities. This means the likelihood of the Scheme running out of money is currently very low.

Benefit illustrations

The benefit illustrations on the following pages are provided to help you understand how the proposed Scheme closure might affect the benefits you receive when you retire.

The illustrations compare the benefits payable to a contributing member the day before closure with the benefits payable to a deferred pensioner member the day after closure. The figures shown are for illustration only. They are current amounts and do not include any projections.

H2 Scale Member

Example 1

Jack currently earns £30,000 a year. He has built up credits of £12,000 a year on the H2 Benefits Scale.

Scheme closure would not affect the benefits that Jack is currently entitled to, other than the lump sum that would be paid to Jack's dependants if he were to die before age 65 and the pension payable to his children as outlined in the Scheme Rules. Currently, his dependants would get a lump sum of £90,000 and his children would receive a pension of £900 a year. However, if the Scheme closes, Jack's dependants would only receive a lump sum of £17,000 on his death and his children would receive no pension.

If the Scheme remains open, Jack's contributions would have to increase from £1,600 a year to £3,400 a year.

Benefits	Impact	Current	After Closure
Member pension	No change	12,000	12,000
Spouse's pension	No change	6,000	6,000
Children's pension per child	No children's pension	900	-
Incapacity pension	No change	12,000	12,000
Lump sum on death	Lower lump sum	90,000	17,000
Lump sum on retirement*	No change	56,100	56,100

**will reduce pension at retirement*

H2 Scale Member

Example 2

Jamie currently earns £45,000 a year. He has built up credits of £22,000 a year on the H2 Benefits Scale.

Scheme closure would not affect the benefits that Jamie is currently entitled to, other than the lump sum that would be paid to Jamie's dependants if he were to die before age 65 and the pension payable to his children as outlined in the Scheme Rules. Currently, his dependants would get a lump sum of £135,000 and his children would receive a pension of £1,400 a year. However, if the Scheme closes Jamie's dependants would only receive a lump sum of £27,000 on his death and his children would receive no pension.

If the Scheme remains open, Jamie's contributions would have to increase from £2,400 a year to £5,100 a year.

Benefits	Impact	Current	After Closure
Member pension	No change	22,000	22,000
Spouse's pension	No change	11,000	11,000
Children's pension per child	No children's pension	1,400	-
Incapacity pension	No change	22,000	22,000
Lump sum on death	Lower lump sum	135,000	27,000
Lump sum on retirement*	No change	102,800	102,800

**will reduce pension at retirement*

H3 Scale Member

Example 1

Daniel currently earns £51,000 a year. He has built up credits of £18,000 a year on the H3 Benefits Scale.

Scheme closure would not affect the benefits that Daniel is currently entitled to, other than the lump sum that would be paid to Daniel's dependants if he were to die before age 65 and the pension payable to his children as outlined in the Scheme Rules. Currently, his dependants would get a lump sum of £178,500 and his children would receive a pension of £1,800. However, if the Scheme closes Daniel's dependants would only receive a lump sum of £35,000 on his death and his children would receive no pension.

If the Scheme remains open, Daniel's contributions would have to increase from £3,200 a year to £6,600 a year.

Benefits	Impact	Current	After Closure
Member pension	No change	18,000	18,000
Spouse's pension	No change	9,000	9,000
Children's pension per child	No children's pension	1,800	-
Incapacity pension	No change	18,000	18,000
Lump sum on death	Lower lump sum	178,500	35,000
Lump sum on retirement*	No change	84,100	84,100

**will reduce pension at retirement*

H3 Scale Member

Example 2

David currently earns £32,000 a year. He has built up credits of £22,000 a year on the H3 Benefits Scale.

Scheme closure would not affect the benefits that David is currently entitled to, other than the lump sum that would be paid to David's dependants if he were to die before age 65 and the pension payable to his children as outlined in the Scheme Rules. Currently, his dependants would get a lump sum of £112,000 and his children would receive a pension of £1,100 a year. However, if the Scheme closes David's dependants would only receive a lump sum of £28,000 on his death and his children would receive no pension.

If the Scheme remains open, David's contributions would have to increase from £2,000 a year to £4,200 a year.

Benefits	Impact	Current	After Closure
Member pension	No change	22,000	22,000
Spouse's pension	No change	11,000	11,000
Children's pension per child	No children's pension	1,100	-
Incapacity pension	No change	22,000	22,000
Lump sum on death	Lower lump sum	112,000	28,000
Lump sum on retirement*	No change	102,800	102,800

**will reduce pension at retirement*

H4 Scale Member

Example 1

Connor currently earns £32,000 a year. He has built up credits of £17,000 a year on the H4 Benefits Scale.

Scheme closure would not affect the benefits that Connor is currently entitled to, other than the lump sum that would be paid to Connor's dependants if he were to die before age 65 and the pension payable to his children as outlined in the Scheme Rules. Currently, his dependants would get a lump sum of £128,000 and his children would receive a pension of £1,300 a year. However, if the Scheme closes Connor's dependants would only receive a lump sum of £25,000 on his death and his children would receive no pension.

If the Scheme remains open, Connor's contributions would have to increase from £2,300 a year to £4,700 a year.

Benefits	Impact	Current	After Closure
Member pension	No change	17,000	17,000
Spouse's pension	No change	8,500	8,500
Children's pension per child	No children's pension	1,300	-
Incapacity pension	No change	17,000	17,000
Lump sum on death	Lower lump sum	128,000	25,000
Lump sum on retirement*	No change	79,400	79,400

**will reduce pension at retirement*

H4 Scale Member

Example 2

Callum currently earns £75,000 a year. He has built up credits of £11,000 a year on the H4 Benefits Scale.

Scheme closure would not affect the benefits that Callum is currently entitled to, other than the lump sum that would be paid to Callum's dependants if he were to die before age 65 and the pension payable to his children as outlined in the Scheme Rules. Currently, his dependants would get a lump sum of £300,000 and his children would receive a pension of £3,000 a year. However, if the Scheme closes Callum's dependants would only receive a lump sum of £22,000 on his death and his children would receive no pension.

If the Scheme remains open, Callum's contributions would have to increase from £5,440 a year to £11,100 a year.

Benefits	Impact	Current	After Closure
Member pension	No change	11,000	11,000
Spouse's pension	No change	5,500	5,500
Children's pension per child	No children's pension	3,000	-
Incapacity pension	No change	11,000	11,000
Lump sum on death	Lower lump sum	300,000	22,000
Lump sum on retirement*	No change	51,400	51,400

**will reduce pension at retirement*