



NCVO WORKFORCE DEVELOPMENT Good employment practice case study

Changing pension schemes

This interview was conducted with the Pensions Manager at an institution employing both academic and non-academic staff. Due to financial pressures on the organisation, many staff had to leave one pension scheme and join another.

1. How did this come about? What brought this issue to light?

This came about due to the rising cost of the previous pension scheme. It was a final salary in-house defined benefit scheme for support staff. An actuary reviewed the scheme and showed **there was a growing deficit between the assets and liabilities of the scheme. The organisation concluded that it could not afford to fund the growing deficit.**

It is worth noting that a national universities superannuation scheme existed for the academic staff and so they were not affected.

Whilst other changes in organisations have been a lot more controversial than the proposed change here (which was to transfer support staff on to the national universities scheme) it was still a major project.

Some organisations make employees switch over to a [defined contribution scheme](#), which shifts the risk for the pension from the employer to the employee. As the organisation wished to provide the same type of pension provision for all its staff this was something that was to be avoided here.

As many of the members had long service in the existing scheme moving to a new scheme was a major issue for them.

2. What were the aims?

- To cut costs and risks to make the staff pension provision financially viable
- To transfer all non-academic staff on to a new pension scheme
- To avoid transferring staff to a defined contribution scheme.
- To make the changes with the support of all the stakeholders involved

3. Who was involved?

- All staff on the old pension scheme
- The Pensions Manager
- Staff-Side representatives (the in-house union)

- Organisational representatives
- Pension Companies

4. What did you do? How did you plan it?

Pension Differences

By switching pensions schemes, there was actually a detriment to the employees compared to their continuation within the previous in-house system. The total value of the benefits in the new scheme was actually very similar as both were final salary pension schemes but there were slight differences in the method used to calculate benefits and also within the area of ill health retirement and spouse benefits. Another issue concerned the contribution rate which was 0.35% higher in the new scheme.

A major difficulty was that by closing the in-house scheme, pensions in that scheme would be capped at the salary of the individuals at the date of closure rather than at the date the employee left or retired from the scheme. The pension from the old scheme would only rise with inflation after the date of closure. The new scheme would not take account of the date of entry to the old scheme and therefore in the new scheme only pension calculated from future service would be linked to final salary. The outcome for members at retirement would be a loss of pension which would be the difference between the actual final salary and the salary at the closure of the first pension scheme. The outcome of the closure would be to reduce the risks of the old scheme by fixing the total service and salary to the closure date.

A further problem was the requirement for transferring members to be a member of the new scheme for two years before qualifying for accrued benefits on leaving/retiring. This would pose a massive problem for those who would be leaving or retiring in that two year window.

Finally, the ways the pensions were calculated with regards to the final salary were also based upon slightly different fractional calculations with the old one offering a larger pension and no lump sum and the new scheme offering a lower pension plus a lump sum. The overall value of these two pensions was very similar and so the wording relayed to staff here was therefore crucial to ensure they understood this message.

The Stakeholders

In order for this scheme change to go ahead, **approval was needed from multiple stakeholders**. What made this project complicated was that in the early stages of the project all of the issues had to be negotiated independently from one another. If talks with one failed or required something changing, talks with the other parties would have to change to reflect this.

The members could not know talks were taking place as public scrutiny of the negotiations would by make bargaining opportunities more difficult to explore and achieve. The organisation also wished to cause members undue worry over the security of their pension.

- The first party concerned was the organisation itself, which had to agree to ensure that the old scheme had sufficient capital to fund all the pensions accrued to the date of closure. They also had to agree to pay in to the new one.

- Next, the trustees of the first scheme had to agree the grounds on which it would close – for example, would they continue to run it as a closed scheme (which has legal implications) or would they look to ‘wind-up’ the scheme and request that everything be transferred to the new scheme or to an insurance company. Whilst options included keeping the old scheme open and only putting new members in the new scheme, the organisation wanted to close the old scheme completely and move future accrual to the new scheme.
- Lastly there was the new provider who had to agree whether to accept only new members or existing members too. During these negotiations the new scheme explained that a group decision had to be made, i.e. individual members could not be given the choice of which scheme they joined.

The organisation, based upon the approvals from the various parties, had opted to close the old scheme completely.

Employee Approval

After these talks, employee approval was to be sought. This was initially done by consulting staff side representatives. Their support was considered crucial to member acceptance of the change.

A very small core working party was assembled although at this stage strict confidentiality was asked for as the aim was to iron everything out and ensure everything was in place and thoroughly reviewed prior to any announcement. In return, **the group was met with openness, honesty and general transparency** around the issues that had to be addressed. As a result of this, the organisation was able to listen and help incorporate staff-side concerns and suggestions into the final offer. This gave the staff-side the opportunity to become ‘part owners’ of the offer and helped ensure their support for the change.

In these meetings, management were open and honest and presented all the possible routes and the associated problems up front. They covered closing the scheme, closing it to some staff, switching the risk to the employee and moving everything to one new scheme. They also went over all the potential worst case scenarios for all of the potentials.

The change was going to **affect 350 employees over multiple sites**. As there were so many, it was decided that planning for all of the worst case scenarios was best as at least one person was bound to ask about a worst case scenario and it was so much better for the organisation to demonstrate they had actually considered everything and thought about how to support or overcome the issues rather than looking at it from a one-sided viewpoint.

After gaining approval of the full offer to be put to staff it was necessary to consult with staff directly.

5. How was it designed? What format did it take?

The organisation was upfront about the old scheme being capped and established a compensation scheme. The amount payable as compensation was as to be calculated as a percentage of future pensionable salary. The percentage payable was based on length of service in the old scheme and ranged from 2-10% of salary over an initial period of five years. Whilst not a substitute, it showed that the organisation recognised that the retirement income of members would be reduced

and that they were trying to cushion the blow. The compensation scheme was to be funded by the reduction in employer contributions in the new scheme compared with those of the old scheme.

With regards to potential losses that people could encounter should they leave within the first two years of the scheme, the solution was for the organisation **to make guarantees to staff** that should they leave in this two year period, **they would be reimbursed for their losses**. Failure to do this would result in lost benefits for staff, some of whom had been employed at the organisation for many years. Failure to provide full benefits for the period would have almost certainly resulted in a backlash against the move to the new scheme.

Although this broad and generous offer sounded costly, the cost would actually be very minimal as the vast majority of staff would not need to take up this offer. As such, it acted as a useful tool in winning over confidence.

6. How was it delivered?

- After the staff side agreed to fully back the proposal it was taken to formal consultation with members.
- **The consultation period lasted 90 days** and during this time, road shows were organised to cover the multiple sites of the organisation. The HR Director, Pensions Manager and Organisation Secretary went to these locations and gave presentations. There were handouts available and a web link was provided to a recorded version of the shows. Further, this was all put on a CD and sent to people who could not attend any of the sites due to maternity leave etc. **The events were made very high profile to show transparency in the process.**
- There were also follow-up question and answer sessions led by the Pensions Manager with an actuary present.
- **Feedback was taken from the consultations and the organisation took account of what was said.** One thing they changed was the method for calculating compensation for part time staff. (This showed that the consultation was an interactive process and not just a mere formality observed but not valued)
- After this consultation, they needed people to accept it by means of a written consent being signed. As the old scheme was closing, the only option was to have the new pension or no pension. (This covered the organisation against future claims that an individual was not made aware that changes had been implemented).

7. What went well in the implementation?

Because everything was so well planned and everyone was listened to in an open culture, **everyone actually signed up to the new scheme**. It was attributed to a great deal of hard work during the preparation stages. The changeover was considered to be a great success. This approach also helped staff have a greater confidence in the information being given to them.

The support from staff was also a huge asset. They took time to understand the events leading up to the need to take action and whilst still driving a hard bargain, they mirrored the organisations approach of always being willing to listen and discuss.

8. What barriers did you face?

- Members of the old scheme were naturally reluctant to accept the need to make the change. **It was important to explain here that the organisation could not afford the deficit of the old scheme to continue to grow and that if the liabilities were not capped, both the organisation and the members would be required to make contributions in excess of that which they could afford.** The organisation had to explain that **having two secure pensions was more advantageous than having one insecure scheme** that could end up bankrupting the organisation without any guarantee that there was sufficient means to fund the pensions owing.
- There have been some recent set backs with the compensation scheme as the original plan was to pay that money in to the new scheme as an employer AVC but their trustees subsequently refused it. There sums involved were also deemed by stakeholder providers to be insufficient for them to offer to open stakeholder pensions for those included, so as of yet, there is no home for the money. The money could be paid directly to staff but they would have to pay tax and National Insurance contributions on it so this is not such a cost-effective option.
- Co-ordinating the diaries of all those involved was a challenge. The time it took to organise meetings meant there was a worry about the talks leaking out.
- The original plan was actually to start negotiations in October and tell staff in December. However the project took twice as long as anticipated and so members were not informed of the issues until March the following year, meaning the switch had to be made part way through the tax year. This made the reporting processes more complex.

9. What would you do differently?

As a result of the high degree of planning and honesty, the Pensions Manager at this organisation was relatively satisfied with the method and approach taken to achieve the change-over. However, trying to keep to a tight timetable for negotiations can be counter productive if the delays that occur lead to frustrations which are allowed to impinge on the attitudes of those involved. It is therefore important to ensure a viable timetable is agreed by all at the start of the process.

10. Any future developments in the pipe line?

- *To secure a home for the compensation scheme.*
- *To monitor the cost to the organisation of providing the guarantees during the first two years of the new scheme.*

11. Final comments/Advice for others?

Be open and honest - It is important to be up front and recognise (and if possible address) any potential losses. Not covering anything up was immensely useful. Questioning was encouraged and was shown to be a positive thing.

Anticipate the worst possible scenarios - Someone did actually ask at an open meeting about how the comparisons were calculated between the old and new scheme and by being prepared accurate information was given easily and instantly and the members were satisfied with the answer.

Prepare thoroughly- provide accurate and well-presented documents and presentations. Do not forget those that do not have access to the vehicle being used, eg ensure absent staff are notified of any open meetings and are also provided with a summary of the meeting after the event has taken place.

Encourage stakeholders to become actively engaged in the process – this gives then a sense of ownership and pride in the end result which will translate into their support for the action to be taken.

Put yourself in the shoes of the stakeholders – that may be managers, trustees, older and younger staff members etc. That way, you start to think things through from every angle and you can investigate and address issues in private rather than being put on the spot in front of a large (possibly hostile) audience. This also helps to identify any inconsistencies and contradictions that might have otherwise been included in the project.