



Babcock International Group Pension Scheme: Proposed Changes to Member Contribution Rates

Response by Prospect

August 2017

www.prospect.org.uk

INTRODUCTION

1. Prospect is submitting this response to the consultation on changes to the Babcock International Group Pension Scheme ("the Scheme") in order to give an overview of our members' views on these issues.
2. The proposed changes will affect scheme members employed by a number of companies across the Group. As decisions emerging from this process will be made at the Group level, Prospect sought to engage with the Group itself. Unfortunately, our correspondence was not acknowledged by the Group and as a result this response is being submitted to each company in the Group that recognises Prospect.
3. Despite the lack of engagement by the Group to date we hope this submission is viewed as a constructive contribution to the process and as the basis for dialogue between the Group and the representatives of its employees.

SUMMARY

4. The results of the latest actuarial valuation of the Scheme show that the estimated cost of providing ongoing benefits has risen significantly. It is reasonable for the Group to propose changes that mitigate the impact of this.
5. However, while the estimated cost of ongoing benefits accrued by each member of the Scheme has risen; the overall cost of the Scheme to the Group has fallen due to the significant decrease in active membership.
6. As a result of the rapidly changing membership of the Scheme, the Group can afford to adjust the proposed changes in order to mitigate the impact on Scheme members.
7. It is especially important that the Group prioritises supporting members to stay in the Scheme. In this response we have suggested changes to the proposals that address the main concerns raised by Prospect members while still achieving the Group's aims.

DETAILED COMMENTS

8. The following sections cover the background to the current position and the main concerns raised by Prospect representatives and members affected by the proposals.
 - **Financial position of the Scheme**
9. The previous valuation of the Scheme (as at 1 April 2013) also revealed funding pressures. As a result, significant reductions in the value of ongoing benefits and increases to member contributions (for members not covered by statutory protections) were implemented. This was a difficult process for members of the Scheme.

10. It is very disappointing that the significant sacrifices made by members of the Scheme were not sufficient to contain the estimated cost of future benefits and that further increases have been reported in the latest valuation of the Scheme.
11. Changes to the construction of the discount rate and low gilt yields at the time of the valuation have impacted both the estimated deficit in the Scheme (there would have been a significant surplus in the scheme if the financial assumptions had been the same as for the previous valuation) and the estimated cost of future benefits.
12. However a significant reduction in the number of active members in the Scheme since the last actuarial valuation means that the total cost of the Scheme to the employer has actually fallen since the last actuarial valuation.
13. It is not clear whether the reduction in the number of active members has been driven by normal age retirements or by the outcome of the reforms to the Scheme after the last actuarial valuation. Regardless, it seems highly likely that total pension costs for the Group (expressed as a percentage of salary) will have fallen since the time of the last valuation of the Scheme.
14. Prospect believes that the Group should use the financial space afforded by the apparent reduction in total pension costs to mitigate the impact of the proposals to deal with the results of the latest actuarial valuation of the Scheme.

- Mitigating the impact of the proposals

15. The estimated cost of ongoing benefits has increased since the time of the last actuarial valuation of the Scheme and Prospect accepts that it is reasonable for the Group to propose changes to deal with this.
16. The proposed approach of sharing the increase in estimated cost of ongoing accrual on a 1/3rd to 2/3rd basis between members and the employer also seems reasonable.
17. However the specific proposal being consulted on could have the undesirable effect of driving further significant reductions in the number of active members of the Scheme.
18. Prospect urges to the Group to use the overall reduction in employer pension costs to smooth the proposed increase in member contribution rates over a three year period so that active members can fund the increase through annual pay awards. This would greatly offset the risk that active members leave the Scheme for affordability reasons.
19. It is welcome that the Group has put forward alternative options for active members who cannot afford the proposed increase in member contributions. However, Prospect has significant issues with the specific alternatives proposed. The defined contribution and salary supplement options almost appear to be

bribes to active members to leave the Scheme. This is not a responsible approach for an employer to take.

20. Recognising that an alternative option will be valued by a significant number of active members of the Scheme, Prospect urges the Group to consider an option where member contribution rates are unchanged but the employer costs are managed through changes to benefits (eg a reduction in the accrual rate). This approach would deliver the same flexibility to members while maximising the number of active members staying in the Scheme.