



To: Prospect members in the Nuclear Decommissioning Group

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Dear Colleague

NDA Defined Contribution Pension Scheme – Update

This update is mainly relevant to members of the defined contribution section of the CNPP pension scheme, as it concerns Prospect's efforts to improve these arrangements.

Background

Prospect members working for several different employers in the NDA group are eligible to participate in the defined contribution section of the CNPP.

The development of pension provision in each employer differed slightly but, in broad terms, members first began to join the defined contribution section of the CNPP after more generous defined benefit pension schemes were closed to new entrants.

Defined contribution pension schemes are very different from defined benefit ones, it is important to understand what these differences are.

Defined contribution V defined benefit

In theory, if employees and employers contributed the same amount to defined contribution and defined benefit pension schemes, and if the assumptions underpinning the calculation of benefits held, then both types of schemes would deliver similar amounts of pension.

In practice, employers do not tend to contribute as much to defined contribution pension schemes and this has a detrimental impact on the retirement income of these members.

Another equally important difference, is that defined contribution pension scheme members bear all of the risk that their savings do not deliver the income they need in retirement.

Defined benefit schemes deliver a certain level of income in retirement. If events mean that it becomes more expensive to deliver that level of income (eg if investment returns fall or if longevity improves so that income has to be paid for longer) then the employer picks up the additional cost.

In defined contribution schemes, these risks are borne by members. Consequently, if economic and demographic factors mean that it becomes more expensive to pay for pensions (as has been the case since the defined contribution section of the CNPP opened), then defined contribution scheme members face lower retirement incomes.

For the above reason, it is important that any defined contribution pension scheme is reviewed on a regular basis to ensure it is meeting its objectives.

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Argument for moving defined contribution members to the defined benefit schemes

The government is currently seeking to pass legislation that would allow it to override statutory pension protections in order to make detrimental changes to the defined benefit schemes in the NDA group.

The stated rationale for these reforms was to apply the principles of earlier public service pension reform to the defined benefit schemes in the NDA group.

One of those principles was that future pensions should build up on a defined benefit basis.

However, when Prospect and the other trade unions argued that this principle implied that members of the defined contribution section of the CNPP should be moved into the reformed defined benefit scheme (once they become “career average” rather than “final salary”), the government refused.

At that time, Prospect gave notice that we would want to discuss the defined contribution schemes as part of an overall review of pension arrangements. Now that the government has restarted the process of reforming the defined benefit schemes, we believe we should also be talking about outcomes for defined contribution scheme members.

The case for reviewing the defined contribution section of the CNPP

There are a number of other reasons for reviewing the defined contribution section of the CNPP.

The establishment of the defined contribution section of the CNPP was the subject of discussion between the trade unions and the NDA. In particular, in the ‘Joint Statement by Unions and NDA and BNFL’ issued after a meeting on 25 September 2006, it was noted that “the employer’s contribution rate could be increased in the future, if required” and that a proposed consultation forum “will provide a mechanism to consult with the Unions on whether any future changes may be justified”.

The joint statement added that “the NDA has agreed that the total cost [of the defined contribution arrangements] to the employer will be no less than the current CPS employer contribution rate of 15%”. The employer contribution to the CPS (and the defined benefit schemes in the NDA group) is far in excess of 15% of pay now.

Clearly, the increase in the cost of providing pensions since 2006 is a justification for reviewing, and ultimately increasing, the employer’s contribution rate as envisaged when the scheme was introduced.

A more technical issue is that the original contribution structure for the defined contribution section of the CNPP made an adjustment for the fact that defined contribution scheme members built up more entitlement to state pension than defined benefit scheme members. This has not been the case since April 2016 so this adjustment should be removed now.

Finally, the original aim of the defined contribution section of the CNPP was to allow members to retire at a reasonable age with a decent standard of living. To the extent that economic and demographic developments mean that this aim is no longer being achieved, then the structure of the scheme needs to be reassessed.

Next steps

Prospect has been lobbying for improvements to the defined contribution section of the CNPP for many years. We made a [comprehensive submission](#) on these points to the NDA pension forum as long ago as 2017.

It is vital to make progress on this issue as soon as possible. Experience has shown that the NDA is not going to be proactive in relation to its commitment to consult with the trade unions about whether changes to this scheme are justified.

Progress is going to have to come through members demanding more through their trade unions. Prospect has organised a [webinar at 12pm on 22 February](#) for members to hear more about these issues and ask questions about the scheme or how we achieve the improvements we think are necessary.

The more members we represent, the stronger our voice will be on this issue. Please speak to colleagues who are in the defined contribution pension scheme about the points covered in this circular and the need to press for improvements. Do also consider getting involved with your Prospect branch to champion this issue.

Yours sincerely

Neil Walsh

Pension Officer