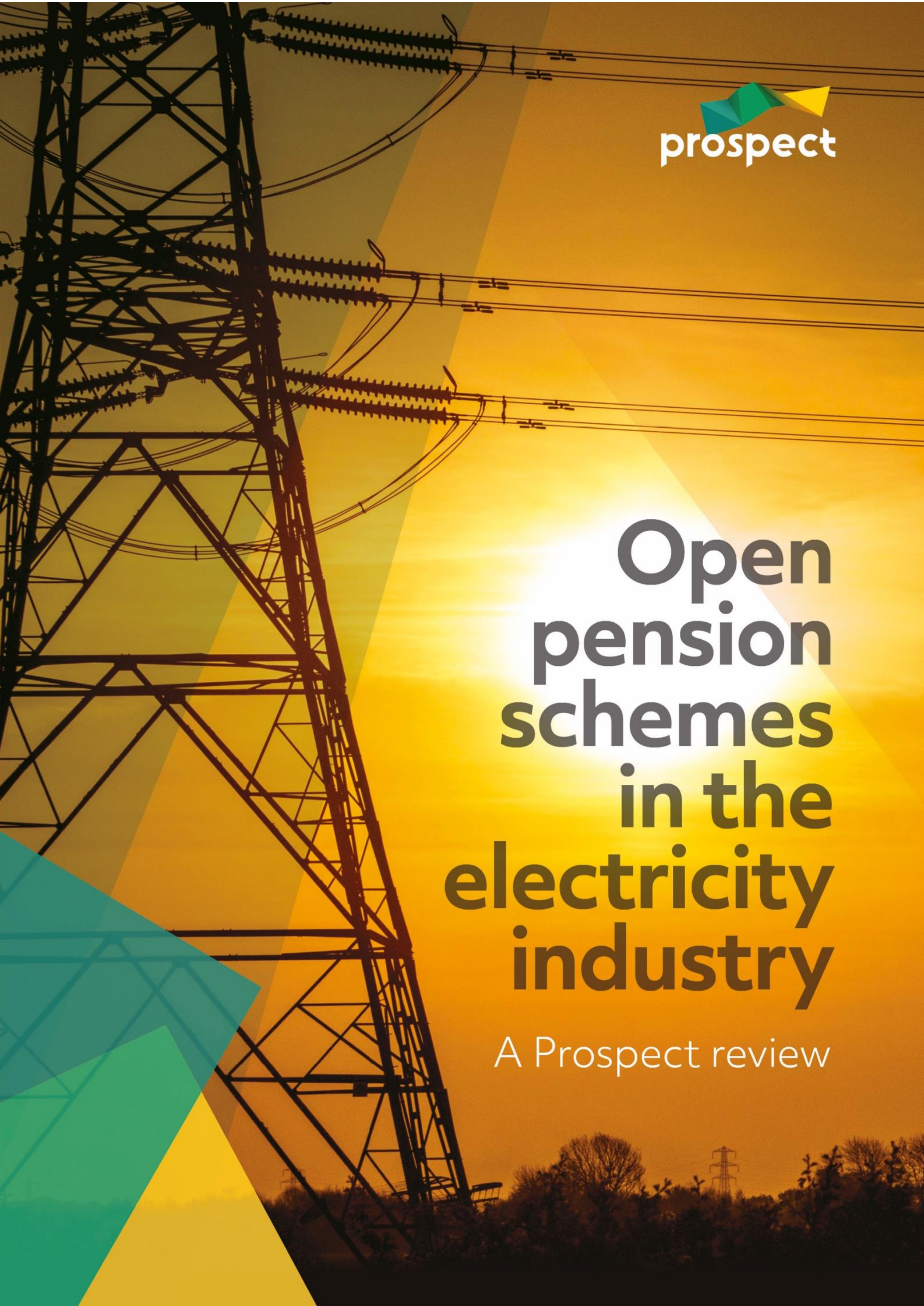

prospect

Open pension schemes in the electricity industry

A Prospect review

Prospect's review of open pension schemes in the electricity industry (2020)

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Welcome

Welcome to Prospect's survey of open pension schemes in the electricity industry.

I am delighted that Prospect's Research department has produced this guide for members in the electricity sector. It will help you assess your pension provision and make the most of what your company has to offer. It will also prove useful when members are considering moving jobs and will hopefully form the basis of campaigns to improve provision in companies that are behind the industry average.

Prospect has also been regularly engaged with pensions issues in the electricity sector through negotiating scheme changes and representing individuals.

It is important to keep pensions high on the bargaining agenda. Since privatisation nearly all defined benefit schemes have closed to new entrants and as you will see in this guide, there is now only one employer offering a defined benefit pension scheme to new employees in the sector. This has led to members being in less generous pension schemes, so there is much work to be done to help everyone secure a comfortable retirement.

Pensions is undoubtedly a difficult technical subject but this guide has been written in plain language with any technical terms explained in the glossary. As always, your Prospect reps and officers are available to answer queries that are not specifically addressed by the guide.

Key messages:

- the need to prepare early by estimating what your pension income might be in retirement and assessing whether this is likely to be adequate
- how to maximise the value of the pension scheme offered by your employer
- the need to campaign to improve pension schemes and the value of a strong union voice in achieving this

The importance of pensions cannot be overstated; with the state pension age likely to increase in the future, a good workplace pension scheme can be the basis of a comfortable, timely and enjoyable retirement. I hope you take the time to read the sections of this guide relevant to you and make the most of this useful resource.

Sue Ferns.

Sue Ferns
Prospect Senior Deputy General Secretary

Introduction

Background

This report updates Prospect's first survey of pension provision available to new entrants in the electricity industry.

There have been a number of significant developments in the pension system, as well as in the electricity industry itself, in the last 10 years.

The report:

- Provides a simple explanation of the basics of planning for retirement and the role that occupational pension schemes play.
- Gives an outline of the occupational pension schemes offered by the main companies in the electricity industry and how to make the most of them.
- Starts a discussion about the future of pension provision in the industry and the improvements that Prospect should be campaigning for.

Pensions are a vitally important but often poorly understood element of your overall employment benefit package. The first step in protecting and potentially improving pension provision is for members to fully understand the value of it.

Pension provision has generally been eroded over recent years as companies respond to a number of factors which have increased the cost of running a defined benefit pension scheme.

In the electricity sector this has most often taken the form of closing final salary schemes and replacing them with lower cost alternatives, usually a defined contribution pension arrangement. As a result, members of open schemes in the electricity sector can generally expect to either have to work longer, save more, or retire on smaller pensions than previous generations of electricity workers.

Employees in the electricity industry have historically enjoyed a very good level of pension provision. Before privatisation, employees in England and Wales had access to an industry-wide defined benefit pension scheme called the Electricity Supply Pension Scheme (ESPS). This was a final salary pension scheme that allowed members to build up a generous level of pension that was inflation-protected and effectively guaranteed by their employer. Employees in Scotland and Northern Ireland were covered by similar pension schemes.

At privatisation, trade unions successfully campaigned for strong protections for pension arrangements in the relevant legislation. The legislation that privatised the electricity industry in England and Wales, Scotland and Northern Ireland imposed a requirement that employees in the industry at the time of privatisation maintain equivalent pension benefits for as long as they work in the industry.

Pension protections that apply to future service, as well as pension already built up, are very strong and quite rare. Many employees in the industry have maintained access to a final salary pension to this day thanks to these protections. Without these protections in law, the general trend for employers to completely close final salary pension schemes would surely have affected most of the companies in the electricity industry.

However, these statutory protections did not apply to employees who joined the industry after the dates it was privatised in the different nations of the United Kingdom.

This meant that the wider pension trends affecting all sectors of the United Kingdom have impacted newer entrants to companies in the electricity industry as well.

As recently as 2008, there were 2.6 million members of private sector defined benefit pension schemes. By 2018, this number had fallen to 1.1 million and only 0.7 million were in schemes that were still open to new entrants.

These trends have been mirrored in the electricity industry with our survey showing there is only one defined benefit pension scheme still open to new entrants with every other employer offering a defined contribution scheme.

Part of the reason why Prospect has produced this booklet is to help members recognise this but also raise awareness of the different options available and help you make informed decisions throughout your career and at the point of retirement.

A section of this guide is dedicated to detailing the different pension offering available at employers within the sector. The main information given is the level of contributions payable by the employer and whether the amount of contributions payable is contingent on you paying a higher contribution too. This information can be used to compare your employer against others in the sector and be used to start campaigns for improvements to your pension scheme.

The booklet also contains a guide to the basics of pension schemes and the different options to provide an income in retirement. Although the vast majority of the pension schemes in the sector are defined contribution schemes, there are still differences and variety between the pension offerings amongst the open schemes in the electricity industry. The main differences between these and how it will impact on the income that you will have in retirement, need to be appreciated.

As nearly all of the schemes are defined contribution arrangements, the main item that we will highlight in this guide is the level of contributions that your employer will pay. However, there are other factors such as fund charges and pension scheme governance which will also have a bearing on member outcomes. Although we cannot study both of these elements in detail within this guide, information is provided to assist you to find such information.

Pages 24-38 cover the open pension schemes in each of the main companies in the electricity industry. We have tried to describe the schemes offered by companies employing the vast majority of our members in the industry. If your scheme is not covered please contact your Prospect rep for further information.

Each scheme profile attempts to

- describe the nature of the scheme
- quantify the value of employer contributions
- explain how members can maximise the value of their pension.

The aim is to help you understand your current pension situation and describe what actions, if any, you can or should be taking to improve this. Comparisons between different types of schemes are not always easy but the guide tries to aid this by employing a consistent template for describing the different schemes.

While we have aimed to provide as much useful information on open occupational pension schemes in the electricity sector as possible, you should remember that definitive information on their employer’s pension scheme is provided in official scheme documentation.

The guide ends with a section detailing further sources of pensions information.

Current position

While Prospect's survey shows that defined benefit schemes in the industry are generally closed to new entrants and have largely been replaced by defined contribution schemes, it also shows that the defined contribution schemes in this industry are much more valuable than the average in the country.

Data from ONS shows that the average employer contribution to a defined contribution pension scheme in 2018 was just 2.4% of pensionable earnings. By contrast, most new entrants in the electricity industry can avail of an employer contribution of at least 10% and, in some cases, a good deal higher.

This shows that pension provision for new entrants to the electricity industry is far above the average level of pension provision in the country overall. This is only one of the ways that a well organised workforce, such as in the electricity industry, delivers better outcomes for employees.

While the provision for new entrants to the electricity industry is well above the average for employees in all sectors and industries, it falls short of the quality of pension provision that older employees in the industry, who are covered by the protections granted at privatisation, enjoy.

The future

Pensions are a hugely important element of your overall remuneration package but are not always well understood or fully appreciated.

One of the aims of this report is to start a discussion amongst Prospect members and representatives about the current level of pension provision available to new and recent entrants in the industry and the case for campaigning and negotiating for improvements.

In the rest of this report we will try to clearly set out the value of the pension scheme offered by your employer, compare it to the pension schemes offered by other companies in the industry and explain how it fits into your overall retirement plans.

Pension scheme basics

A basic level of background pensions knowledge will help you to fully understand and appreciate the information in this guide.

This chapter summarises:

- the main issues members need to consider in assessing their pension provision
- the main sources of pension income
- the main features of the different types of pension scheme in the electricity industry.

This information is not exhaustive, and more details are available from the Prospect website or from the resources listed at the end of the guide. Prospect reps and full time officers can also answer queries and help you understand the key issues relating to your pension provision.

Issues to consider

There are many important issues to consider in assessing your pension arrangements and the scheme your employer offers.

First and foremost is the level of income you feel you will require in retirement. This will depend on many factors including your expected outgoings, aims and ambitions for retirement.

Against this is the level of pension income you expect your current level of savings to provide. This will depend on the different pensions you are entitled to and the level of contribution you, your employer or the state makes to them. The form of benefits you choose to take and when you choose to take them can also affect the level of pension income.

Finally, the certainty surrounding the level of pension income is also important. The type of pension scheme offered by your employer is usually the biggest factor affecting the level of certainty attached to your expected income in retirement.

1) Level of income required in retirement

Only you can judge the level of pension income you will need in retirement. Traditionally this has been expressed in terms of the ratio between post-retirement and pre-retirement income. People have generally aimed for a level of income of a proportion of, say, half or two-thirds or three-quarters of their salary at retirement.

The Pensions Lifetime and Savings Association have taken a different approach with the publication of the Retirement Living Standards. What they have done is illustrate three different standards of living in retirement; minimum, moderate and comfortable. Each of the standards of living has an associated suggested income. The standards go into detail about what your life and spending habits may look like in retirement depending on which standard of living your level of retirement income means that you fall into. They do this by providing examples of the typical expenditure that you may be able to make. The idea of this is that it promotes pension saving and provides people with a savings goal depending on what standard of living that they would like to have in retirement.

Outgoings are usually lower in retirement because, for example, costs associated with travelling to work are lower, mortgage or other debt has been paid off, children have become financially independent, or even because there is no need to save for retirement any more. So a drop in required income at retirement is not unusual. Your desired post-retirement income will of course depend on your expected level of outgoings. The pension income you need will further depend on any other income sources you have in retirement: any non-pension savings or income from part-time work will clearly reduce the required pension income. Perhaps the easiest way to assess the level of income you may need is to consider your current outgoings and judge which, if any, will change significantly by the time of retirement and what new outgoings there might be by then.

2) Expected level of pension income in retirement

It can be difficult to estimate what your pension or other income might be in retirement. Pension can come from different sources and be calculated in different and sometimes complex ways. However, pension providers, from the state to employers to insurance companies, can and do provide illustrations of the expected level of pension income in retirement. These illustrations can be the best source of information on expected income in retirement. They are also very helpful in assessing the pension provision offered by your employer. But the illustrations are simply projections based on assumptions so they are subject to a good deal of uncertainty and, like overall pension planning; need to be kept under fairly regular review. It is very important that members receive illustrations from all their main sources of pension income on a regular basis.

Defined contribution schemes are especially difficult to accurately predict your future retirement income as this will depend on the value of your pension fund at retirement which is variable depending on; the level of contributions paid, investment returns and charges. As a member of a defined contribution scheme, you will receive a statement each year called a statutory money purchase illustration. The statement will detail your estimated pension at retirement which is based on you purchasing an annuity. Later in this guide the options available at retirement are looked into and as you will see, there are now various options available when looking to turn your pension fund into a retirement income. Furthermore, annuity amounts themselves will differ per provider so it is important to shop around and see what other providers will offer you. The Money Advice Service has an online tool available to compare annuity products which can be found here:
https://www.moneyadviceservice.org.uk/en/tools/annuities

3) What level of contributions are required to provide a good income in retirement?

For defined benefit members, this is not an issue as the pension you receive through the scheme is not linked to the amount of contributions you pay. Instead, as the amount of pension you receive is defined, you need to ascertain if the level of pension that you are building up in the scheme will be sufficient for your retirement.

For defined contribution members, the income that you receive in retirement is dependent on how much is in your pension pot and the main way that members can influence this is in deciding how much you want to pay into your pension. As you will see later on in this guide, at many employers within the sector if a member pays a higher level of contributions, so will the employer.

Various reports and studies have been conducted to provide savers with a percentage figure for the amount that they need to save into their pension to have enough in their fund for an adequate retirement. An Independent Review of Retirement Income was published in 2016 and this suggested that 15% of lifetime earnings should be saved into a pension scheme. This figure includes the employer contribution. This figure is achievable at most employers in the electricity sector.

4) Certainty of expected income in retirement

As noted above, projections of income in retirement are based on several assumptions and need to be kept under review. There are various risks associated with pension provision, from increasing longevity (meaning pensions have to be paid for longer) to investment risks and uncertainty over inflation. There is also the risk of default of the pension provider or sponsor. Some forms of pension provision pass more of these risks onto members than others. The more risks that members face the more they have to pay attention to their pension position and even attempt to manage these risks if possible.

5) Are scheme benefits being maximised?

If members are not contributing to a workplace pension scheme then they will not be saving for their retirement but on top of this, they do not receive the employer contribution which is part of their overall remuneration package.

Pensions are also a tax efficient way of saving and by not contributing to a pension scheme; people will also miss out tax relief.

While the standard employer contribution to many of the pension schemes in the sector is low, most employers have a contribution structure whereby they will contribute more to your pension if you also pay more. It is important to regularly review how much you are paying into your pension to assess if you are on track to have sufficient pension provision so that you can retire at an age of your choosing.

When can you retire?

In the past, retirement was much more of a fixed process that happened when people reached a certain age.

This might be because their employer could impose a retirement age that required people to stop working at that point or because their employer offered a good defined benefit pension scheme that offered unreduced benefits from that age.

Increasingly retirement will be more of a flexible process.

Many people will want to continue to participate in the labour market far longer than was traditionally the case because they enjoy their role or for social or other reasons.

Many others will want to retire as soon as they can in order to enjoy other parts of their lives but they will first have to be able to afford to retire.

So retirement will happen less at a fixed age and more when people can answer these two questions positively:

a) Do I want to retire?

b) Have I built up enough pension to be able to afford to retire?

If you want to retire, and can afford to do so, then there seems little point in continuing to work. The age that you will be able to afford to retire at is unlikely to be a round number (or any fixed age) but dependent on how much you and your employer has contributed to your pension, how well the underlying investments performed and how expensive it is to use your pension pots to secure a retirement income.

Sources of pension income

Most members will have pension provision from one or more of three main sources: the state, their employer and themselves. Over a long career members may well accumulate many different pensions under these different headings. The relative importance of the main sources of pension income depends on an individual’s own circumstances and pensions history but each can have a very important part to play in pension provision.

1) State pension

State pension is payable from State Pension Age. State Pension Age was equalised at 65 for men and women in November 2018. It has been increasing slowly since then and will be 66 for men and women by October 2020.

Under current legislation, State Pension Age will increase to 67 by April 2028 and 68 by April 2048 (with a short phasing in period beforehand).

You can check your own State Pension Age, under current legislation, using the following government calculator:

https://www.gov.uk/state-pension-age

State Pension Age will be reviewed regularly in the future and the increases that are currently legislated for can be brought forward or extended (it could well be that it will be 69 or 70 or even higher by the time the youngest people currently in the workforce are able to retire).

People reaching State Pension Age from April 2016 qualify for the new state pension. The full rate of the new state pension is £175.20 per week (in 2020-21). Currently 35 qualifying years of National Insurance contributions or credits are needed to build up a full state pension.

You can get a forecast of your state pension entitlement from the following government website:

https://www.gov.uk/check-state-pension

State pension provision is, unfortunately, quite complex and difficult to summarise in a few paragraphs. Since April 2016 there has been a single tier state pension and going forward everyone is contributing and building up state pension entitlement in the same way. However, prior to 2016 the state pension was split into the basic state pension and the State Second Pension (also known as SERPS or S2P). The majority of members in one of the open electricity supply pension schemes will have built up some state pension entitlement prior to 2016 and this can impact on how much state pension you will receive. It is therefore important to check your state pension record and request a forecast to gain some certainty over how much your state pension will be.

a) Single tier state pension (new state pension)

The new single tier state pension was introduced for individuals reaching state pension age after 5 April 2016. You will be eligible to claim the new State Pension if you are a man born on or after 6 April 1951 or a woman born on or after 6 April 1953. If you reached State Pension age before 6 April 2016, you will get the State Pension under the old rules which are covered in the next section of this guide.

In order to get any of the new state pension you will need at least 10 qualifying years on your National Insurance record. The full new State Pension is £175.20 per week (2020/21 figure) but the actual amount payable will depend on your national insurance record. The pension you receive can be higher than this if you have built up state pension under the old system that would be higher than this or if you defer taking your state pension.

If you have paid national insurance contributions prior to 6 April 2016, this is used to calculate your state pension under the new system. Specifically it is used in the calculation to determine your "starting amount" which is a comparison to see how much you would have received under the old rules and the amount you would get if the new state pension had been in place at the start of your working life.

If your starting amount is less than the new state pension, it is possible to increase your entitlement by adding more qualifying years to your National Insurance record after 5 April 2016. This can be done until your reach the full new state pension amount or reach state pension age, whichever is first. Essentially, if your state pension is currently lower than the full amount you can increase its amount with each qualifying year that you add to your national insurance record and each year that you get will add approximately £5 a week to your state pension total.

If your calculated starting amount is more than the full new state pension then you will receive this amount. The part of the starting amount that is higher than the full new state pension is called your "protected payment". If you are in this situation, any qualifying years that you have after 5 April 2016 will not add more to your state pension.

If you did not make national insurance contributions or get national insurance credits before 6 April 2016 then you will need 10 qualifying years to get any state pension and 35 qualifying years to get the full new state pension. If you have more than 10 years but less than 35, you will receive a proportion of the full new state pension.

At the time of writing the state pension is increased in line with the “Triple lock”. Introduced by the coalition government in 2011, the triple lock ensures that the state pension increases in line with the higher of:

- Inflation
- Average earnings growth in the UK; or
- 2.5%

Your starting amount may include a deduction if you were in certain:

- earnings-related pension schemes (such as a final salary or career average pension schemes) before 6 April 2016; or
- workplace, personal or stakeholder pensions before 6 April 2012

You may have paid lower National Insurance contributions and paid into one of these pensions instead. This is known as being ‘contracted out’ of the State Second Pension. Members who have been working in the electricity supply industry are likely to have been contracted out at some stage. What this means is covered under the state second pension section but in short, if you have contracted out service, a deduction will be made to your starting amount of state pension entitlement.

b) Basic State Pension

If you reached state pension age before 6 April 2016 then your state pension will comprise of entitlement under the basic state pension and possibly the state second pension. The Basic State Pension is a flat-rate pension paid to people who have paid (or been credited with) National Insurance contributions for a sufficient number of years during their working lifetime.

In order to receive the full basic state pension you will need to have 30 ‘qualifying’ years. A ‘qualifying’ year is one where a member has been employed and had a minimum level of earnings over the financial year, or where the member has not been employed but has received a credit towards their basic state pension entitlement due to carrying out a caring role, being ill or receiving certain benefits (eg child benefit, incapacity benefit).

As a result of these changes the vast majority of members would be expected to qualify for a full Basic State Pension if they spend most of their career in the UK.

The current rate of the full Basic State Pension (2020/21) is £134.25 per week. It is currently increased in line with the “Triple lock” as described in the previous section. This means that the value of the Basic State Pension should be maintained over time and not eroded by the gradual increase in cost of living. The Basic State Pension is not considered to be a sufficient income to comfortably retire on but it can be a useful foundation on which to base overall pension provision.

c) State Second Pension

As for the basic state pension, the state second pension is also payable if you reached your state pension age prior to 6 April 2016. Not everyone built up entitlement to the State Second Pension. To qualify for State Second Pension benefits you have to be ‘contracted in’ to the State Second Pension. If you or your pension scheme were ‘contracted out’ of the State Second Pension then you will not qualify for most of this benefit.

With the introduction of the single tier state pension, individuals could no longer build up entitlement to the second state pension and so contracting out was abolished from 6 April 2016.

It is important to understand whether your pension scheme was contracted out of the State Second Pension as this may impact the level of state pension that you receive.

If you were contracted out of the State Second Pension you and your employer will have paid lower National Insurance contributions.

Those contracted in to the State Second Pension pay higher National Insurance contributions and earn entitlement to a very complicated and poorly understood but valuable benefit.

The amount that you will receive from the second state pension will be determined by how many “qualifying years” you have, your earnings, whether you were contracted out and whether you topped up your basic state pension.

For contracted in members, their overall state pension comprising both Basic and State Second Pension can provide a good building block on which to base a decent level of pension provision.

Of course, a member can contract out and contract in to the State Second Pension at different times as they move between employers and different pension schemes.

2) Workplace pension

Membership of workplace pension schemes has increased significantly in recent years (from 8.3 million in 2010 to 17.3 million in 2018) because of automatic enrolment. Automatic enrolment is a form of soft compulsion where many employees are automatically enrolled into an occupational pension scheme but have the option to opt out.

For many people, a workplace pension scheme will be their main source of income in retirement.

This is particularly the case in the electricity industry, where pension provision is generally well above average.

Under current legislation, a pension can generally be drawn from age 55. Government policy is to delay the earliest age a pension can be taken from (minimum pension age) as increases in State Pension Age occur. It is planned that the minimum pension age will rise to 57 in 2028 when the State Pension Age increases to 67.

Building up enough pension to maintain your standard of living by minimum pension age will not be practical for most people. The longer you contribute to a pension and the later you start to draw it, the higher it will generally be.

There is a legal obligation on most workplace pension schemes to send active members a statement of their pension entitlement. This will usually include a forecast of the projected pension that will be built up by certain ages. Many workplace pension providers provide online tools and calculators that allow members to estimate the projected pension they will build up by different ages under different scenarios.

If you previously worked for another employer it is important to understand what has happened to any workplace pension you built up with them. If you are not sure what previous pension provision you had, then you can use the government’s free tracing service to find contact details for your previous employer’s pension scheme:

https://www.gov.uk/find-pension-contact-details

Make sure that all previous pension schemes you were a member of have your current contact details. You should also get a forecast of the pension you have built up in previous schemes.

Some people may rely on other income on top of pension income to maintain their standard of living in retirement.

They may plan to work part-time or on an irregular consultancy basis. They may have built up investments (eg buy-to-let property, a portfolio of shares etc) and plan to supplement their pension with income generated by these.

It is important to consider all potential sources of income in retirement.

Pension schemes offered by employers are called occupational pension schemes. They come in a variety of forms, the main ones being defined benefit and defined contribution schemes. A further type of pension scheme, collective defined contribution, is currently being introduced in the UK.

The key issues for members around employer pension provision are:

- expected level of benefits
- level of employer contributions to the scheme
- risks born by the member.

Employer pension provision in the electricity sector, even for new entrants who are in a defined contribution scheme, is generally better than what is on offer in other sectors of the economy. Most open schemes are now defined contribution plans, in line with the majority of open schemes in the country, but the level of employer contributions to these schemes in the electricity sector is generally above the national average.

Companies have closed defined benefit pension schemes because of the increasing cost of providing these benefits and the ever-increasing level of risk associated with running such schemes. In some cases companies can accrue pension liabilities in defined benefit schemes that are larger even than the companies' own market capitalisation. For many companies this represented an unacceptable level of risk to incur as a consequence of the pension benefits offered to employees.

Whatever the reason for changing the pension provision offered to new entrants, this process can lead to a 'two-tier' workforce in terms of pensions. Prospect's aim is to ensure that the pension schemes open to new entrants in the electricity sector meet members' needs. Like all trade unions, Prospect is a democratic organisation run by its members. Prospect's governing body, its biennial conference has previously passed motions calling for improvements to defined contribution schemes to be a campaigning priority. Members of open pension schemes are encouraged to become active within their own branches (whether by becoming reps or simply asking questions of officers or reps) in order to keep the issue of pension provision to new entrants high on the agenda.

Typically, employers within the sector still have staff in a defined benefit scheme and are paying significant contributions to the scheme to maintain this benefit. As these staff leave or retire, the overall pension cost to the employer will reduce and it is important to ensure that savings made in this area are used to improve the pension offering to newer staff in the defined contribution pension schemes.

3) Personal pension (or AVCs)

Many people make their own pension provision on top of that offered by the State and their employer. This may be because they want to top up their electricity sector pension or because they are making up for previous periods when they were not covered by an adequate (or any) employer pension. Current tax rules allow members to contribute up to 100% of their salary to a personal pension. This extra pension provision may be to a separate personal pension arrangement, their current employer pension scheme, or to an AVC (additional voluntary contribution) scheme offered alongside an employer's scheme.

If you do decide to pay a significant amount of additional pension contributions, there are tax restrictions on this, namely the annual allowance. This is not covered in this guide but further information can be found on the Prospect library (Pensions Tax Relief Briefing) and if you are potentially affected by this, it may be wise to seek financial advice.

Personal pensions, like most forms of AVCs, are defined contribution arrangements and are generally provided by insurance companies. You may have heard of a stakeholder pension, this is simply a specific type of personal pension that conforms to certain rules regarding the level of expenses and other criteria.

Further information on defined contribution schemes is covered later in this guide.

Forms of employer pensions

There are two main types of employer pension scheme: defined benefit and defined contribution. A third type, collective defined contribution, is currently being introduced in the UK. Each type has its advantages, disadvantages and features.

As the vast majority of schemes in the sector are now defined contribution arrangements, it can be instructive to study the benefits offered by the different schemes as a benchmark against which your own scheme can be assessed. Likewise if your scheme is a defined benefit one it is useful to understand the features of defined contribution arrangements as any additional pension provision you make is usually to this type of scheme.

Regardless of the form of pension provision offered by employers, the facility to contribute to the scheme via salary sacrifice is often available. Salary sacrifice is a mechanism used to minimise member and employer national insurance contributions with savings usually shared between the member and the company. In theory there can be benefit implications from participating in salary sacrifice schemes that can result, in certain circumstances, in members losing out on state or other benefits. However, overall, most salary sacrifice schemes are designed so that the vast majority of members benefit from participating. There is a Prospect Pension Briefing Note on salary sacrifice arrangements available on the Library section of the Prospect website for anyone wanting to know more about the implications of participating in such an arrangement.

1) Defined benefit schemes

A defined benefit pension scheme is one that pays a pension according to a formula set by the rules of the scheme. The pension is unrelated to the contributions paid by the member or the performance of any investments held by the pension fund.

A final salary pension scheme is a specific type of defined benefit pension scheme where the formula makes reference to a members' salary on leaving the scheme. Often the benefit is expressed in the following terms:

Pension = years in the scheme x final salary / 80

(eg, for someone who retires on a final salary of £45,000 after 40 years in the scheme, pension = 40 x 45,000/80 = £22,500)

This example is often called an 80ths pension scheme due to dividing by a factor of 80, but 60ths and other schemes are also common.

The normal pension age of defined benefit schemes is also very important. Normal pension age is the earliest age that members can draw their benefits unreduced. Normal pension age is not an age that members can or have to draw their pension benefits or have to retire. In the electricity industry normal pension ages of schemes are commonly 60, 63, 65 or state pension age.

Members may also qualify for a tax-free lump sum payable on drawing a pension. The lump sum can be in addition to the pension or in exchange for some pension (or a combination of both).

Other defined benefit schemes can pay pensions related to average earnings over a career rather than final salary and are often called career average schemes.

As with all types of pension provision the key issues of concern for defined benefit pension schemes are:

- expected level of benefits
- level of employer contributions to the scheme
- risk borne by members
- how to maximise the benefits payable.

Final salary pension schemes are often considered to be the ‘gold standard’ of pension schemes and indeed the value of benefits payable from these schemes can be amongst the highest and most secure of all pension schemes.

In the electricity sector, final salary schemes have traditionally been based on the Electricity Supply Pension Scheme (ESPS), which was the scheme for workers in the industry in England and Wales at the time of privatisation (similar schemes operated in Scotland). At privatisation most companies operated their own section of the scheme (a ‘group’) and since privatisation these have mostly been closed to new entrants and hence are no longer open.

The ESPS typically offers, amongst other benefits, an 80ths final salary pension plus a tax-free lump sum of three times the pension. Therefore a worker spending 40 years in the scheme would be expected to be able to retire at normal pension age with a pension of half salary with an additional tax-free lump sum of one and a half times final salary. This level of benefit, together with any state or personal pension, would generally be considered by most people to provide for a comfortable retirement. Indeed the level of ESPS final salary benefits might be a benchmark against which members of other schemes can assess their own pension provision.

The level at which the pension typically increases in retirement can vary but is in line with inflation (RPI or CPI) though not always fully matching this rate if inflation is very high.

As well as a pension and lump sum the final salary sections of the ESPS also provide illness and death benefits and pay spouse’s pensions too.

If the final salary ESPS benefits described above are a benchmark level that allow most members to retire fairly comfortably, it can be useful to look at the cost of providing these benefits. Members of these schemes typically contribute 6% of their salary. The company pays the balance of the estimated cost of providing the benefits. Recent estimates show that the cost to the employer can differ wildly and be anywhere between 20% and 60% of members’ salaries.

Not only are the benefits provided from these schemes generous, they are also relatively secure. Risks inherent in providing pensions such as poor investment returns and increasing life expectancy are borne by the employer. If the cost of providing the pension turns out to be higher than originally expected, any shortfall is made good by the employer rather than the member. So, for example, while the financial position of pension schemes have fluctuated greatly in line with market conditions, recently these fluctuations have not had any impact on the level of benefits members of these schemes can expect in retirement.

The main risk that members in final salary schemes face is the risk that their employer is unable to pay the required contributions. This can happen if the sponsoring employer becomes insolvent. This can be a real risk with final salary schemes generally but is less so in the electricity industry where strong utility companies back the pensions promises made.

Even in the unlikely event of the failure of a scheme’s sponsoring employer in this sector the scheme’s trustees and the regulatory authority will have ensured that the scheme holds assets to offset the pension liabilities. If the assets held are not sufficient then the lifeboat fund for pension schemes, the Pension Protection Fund, may step in to pay out a higher level of benefits than the pension scheme’s assets would otherwise have secured.

The main decision facing members in companies with an open defined benefit pension scheme is whether to join the scheme or not. Not joining such a scheme means the member loses out on the value of the employer contributions to the scheme and hence it is usually advantageous to join up (though this can depend on circumstances). If you have not joined a defined benefit scheme that is open to you then you should discuss this with a Prospect rep.

2) Defined contribution schemes

A defined contribution pension scheme is one where contributions are paid into a pension pot. The pension pot accumulates with investment returns and is used, at retirement, to fund the member's retirement. Since automatic enrolment was introduced in 2012, employers have to make a minimum level of contributions for their eligible jobholders. The regulations stipulate a minimum total contribution that must be paid and part of this has to be met by the employer. The required contribution amounts started off at a low level and have gradually increased over time. The current minimum contributions required under automatic enrolment are as follows:

Date	Total minimum contribution	Employer minimum contribution
06/04/2019 onwards	8% (including 5% employee contribution)	3%

There are currently no formal plans to increase these minimum levels any further although a government review of automatic enrolment is expected in the mid-2020's.

Defined contribution schemes can have different contribution structures. Most generally have a minimum member contribution rate plus an employer contribution that can be flat-rate, age-related (typically increasing with age), service-related (typically increasing with length of service in the company) or increasing with members' own contributions over the minimum required (often known as "matching").

Defined contribution schemes often provide other benefits such as ill-health pensions and death-in-service benefits and these can be valuable in themselves.

Key issues for people in a defined contribution scheme to consider are:

- level of charges / fees
- choice of investment funds
- level of employer contributions
- options at retirement when turning the accumulated pension pot into pension income
- how well the scheme is run

The level of fees charged by pension providers can have a significant impact on the income members enjoy in retirement. Even small differences in quoted management charges can have very significant effects on the size of your final pension pot.

Occupational defined contribution schemes can have employer only or both member and employer contributions. Member and employer contributions are most common in the electricity sector. The contributions are known but the investment returns and the price of pensions at retirement are not; hence the benefit offered by the scheme at retirement is unknown.

Defined contribution pension schemes are very different to final salary pension schemes. While final salary pension schemes are often thought of as a gold standard, they are just a different way of providing pensions with advantages and disadvantages compared to defined contribution schemes. In practice, however, the way that defined contribution schemes are introduced makes them inferior to final salary schemes in the vast majority of cases.

As well as usually providing lower benefits than final salary schemes, defined contribution schemes also have a very different risk profile.

In a final salary scheme the members' benefits do not depend on the performance of investments, mortality expectations on retirement or other such variable factors. So long as the employer remains solvent and/or the pension scheme has enough assets to pay the benefits, the member receives the promised pension regardless of the cost of providing it. The level of benefits is very secure.

The opposite is the case in defined contribution schemes. Most of the risks of providing benefits fall on the member and this can lead to great uncertainty in the level of benefit provided. While the scheme provides annual projections of the benefits that a member can expect, these depend heavily on the underlying assumptions, and the actual benefit paid can vary greatly from the projections. While placing the risk on members can result in higher than expected benefits (if, for example, investment returns are much higher than assumed) they can obviously also lead to lower benefits than expected.

Members generally prefer to have less risk associated with something as important as their pension and the greater uncertainty associated with defined contribution schemes is therefore usually considered to be a further disadvantage compared to final salary schemes.

The investment risk borne by members of defined contribution pension schemes can be particularly significant. For example, members can even find that due to changes in financial markets, the value of their pension fund can fall over time despite the fact that they and their employer have been contributing to the scheme over that period. This level of risk is generally unavoidable when contributions are allocated to funds invested in the stock market and similar asset classes. However, members should bear in mind that, for most of the time their pension is invested in such funds, their time horizon for investments will be long term and sharp, short term movements in fund values will tend to be smoothed out over this period. Even dramatic falls in some asset values would not generally cause advisors to re-evaluate the appropriateness of investing in asset classes such as equities.

Members should seek advice before making significant decisions relating to pension provision in response to short-term market movements. At the point that short term movements in fund values are more significant for members, schemes often arrange for members' funds to be moved from more volatile asset classes into areas where values are more stable and less likely to fall dramatically in a short period. This process is often known as "lifestyling".

3) Collective Defined Contribution schemes

Collective defined contribution (CDC) pension schemes are new to the UK but have been in place in other countries for some time. CDC schemes are seen as an improvement to a defined contribution scheme as there is a sharing of risk rather than this falling entirely on the individual member. In this sense it has similarities to a defined benefit scheme although the risk is being shared with other scheme members, rather than the employer.

A CDC scheme is much closer to a defined contribution scheme in design than a defined benefit scheme. In a CDC scheme, employees and employers pay contributions into the pension fund and rather than members having an individual pot, the member has a share in a collective pension fund.

The main positives of a CDC scheme are that longevity risk is shared and investment returns have the potential to be higher and more stable which should mean that the scheme provides a better outcome for members than a defined contribution scheme.

When a member joins a CDC scheme, they, along with their employer, will pay contributions into the scheme and depending on the level of contributions being paid; the member will have a "target" retirement income. This target income is payable for life like an annuity or defined benefit scheme, however the amount payable is not guaranteed. A members target income will be payable if investment returns are as expected and other assumptions, such as those for longevity, are accurate. If actual experience is different than those assumptions, the pension scheme is able to amend the income payable to members whether that be through a reduction in pension payments or a reduced level of increases being applied.

Although this may be seen as a negative of a CDC scheme, the theory is that by pooling funds on a large scale, the scheme will be able to achieve greater investment returns and that because of the collective nature of the scheme, it will be able to provide members with a higher retirement income when compared to a defined contribution scheme, if the same level of contributions are paid in.

An agreement has been reached for the first CDC scheme to be introduced in the UK for Royal Mail employees and the necessary legislation to enable this is contained in the Pension Schemes Bill which is currently progressing through Parliament. Prospect will be closely monitoring the implementation of a CDC scheme at Royal Mail, as if successful, this type of scheme could be suitable for our members in certain sectors.

Investment options

In a defined contribution pension scheme, the investment returns earned obviously make an important contribution to the size of the pot of money available at retirement.

Both the performance of the underlying investments and the level of charges levied on scheme members are crucial.

In a defined benefit pension scheme the level of investment returns is also important but any shortfall has to ultimately be made good by the sponsoring employer and not the scheme members.

There is a requirement for defined contribution schemes to have a default investment strategy, designed with the help of qualified advisors, which reflects the needs and demographic profile of the membership.

A default strategy will often invest in a range of different types of assets such as: growth assets (eg global equities, UK equities, emerging markets equities, property), bonds (eg gilts, UK bonds, index-linked bonds) and cash.

The proportion of investments in each type of asset class is usually designed to automatically change in certain ways during the course of the scheme members' careers.

In the main asset classes, schemes often offer passive investment strategies - where the fund is invested in all the constituents of the asset class in proportion to their market size in order to replicate the performance of the asset class overall.

This means there is no attempt to produce superior returns by betting on the performance of individual stocks or groups of stocks. This active approach to investment incurs much higher charges than a passive strategy but there is little evidence that it can reliably deliver returns that justify the higher costs.

Most pension scheme members are not investment experts and are not confident about choosing the asset classes their pension fund should be invested in. A majority of scheme members usually end up invested in the default option offered by the pension scheme.

It would only seem to make sense to adopt a different approach from the default strategy if you have a reasonable basis for believing a different strategy will deliver better returns and that those better returns will more than outweigh any increased costs associated with the different strategy.

Choices at retirement

Members of defined contribution pension schemes have to make crucial decisions at retirement. Their pension scheme delivers a pot of savings, invested in a mix of assets determined by the chosen investment strategy, but how should they use this to provide a suitable income throughout retirement?

For many this will be the biggest financial decision they make in their lifetime and it is vital for members to have enough information and understanding of their options to make the choice that is right for them.

Defined benefit pension schemes offer members a guaranteed level of income, which is at least partially inflation protected, for the rest of their life.

When taking benefits from a defined benefit scheme, there are very few decisions to actually make. There are no investments to manage; the members do not have to estimate how long they need to make their savings last. For the majority of members, the only tough choice is whether or not to increase their tax-free lump sum and reduce their pension accordingly.

Defined contribution members do not have the same level of security. They have to decide how to use the pension pot they built up over their career to provide an income for the rest of their life. How well they are supported can affect their quality of life in retirement.

In 2015, the coalition government introduced pension freedoms which removed the requirement to purchase an annuity at retirement. Members now have a whole host of options when deciding how to use their pension pot to fund their retirement.

The most common options are:

1) Buy an annuity

An annuity is a product that pays regular income for the rest of someone's life. There are many different types of annuities: e.g. paying a fixed amount of income or an amount that increases throughout retirement, just paying an income for the life of the policyholder or continuing to provide an income to a surviving partner.

Annuities remove the requirement for members to estimate how long they need to make their savings last; insuring against the risk of members outliving their savings.

There are advantages to having this certainty, but it comes at the cost of investing in safer gilts and bonds for longer and this can result in lower investment returns and hence less income in retirement.

When considering purchasing an annuity with a pension pot it is very important to research the prices offered by a variety of providers in the market and not simply accept a default choice. Pension prices can vary hugely across providers, with differences of up to 30%. Buying a pension with an accumulated pension pot is one of the most important financial transactions you will undertake, so it is vital that you secure the best possible pension for your money.

It is also important to consider the form of pension purchased. A high level of pension payable immediately might be superficially attractive but it is also important to consider how this might increase throughout retirement. A higher initial pension may be offset by lower inflation protection in the future or lower spouse's pension.

2) Income drawdown

Income drawdown is a product that allows members to keep their pension pot invested in some growth assets while taking money out on a regular basis to live on in retirement.

With this option you can take up to 25% of your pension pot out as a tax free lump sum upfront. If you do this, all further withdrawals will be treated as taxable income.

Income drawdown allows members to stay invested in growth assets for longer and therefore target a higher level of income in retirement than an annuity might be able to provide. This option is the most popular of the pension freedoms and is likely to be the most used method of converting a pension pot into a retirement income going forward.

However there is greater risk associated with leaving your pension invested in growth assets and funds may fall in value. Perhaps the biggest concern with drawdown is longevity risk as members do not know how long they will live; so they are left with the problem of estimating how long they need to make their savings last.

3) Take your entire pension fund in one lump sum

This option allows you to take your entire pension pot in one lump sum. This may seem an attractive option to some but there are serious tax implications to consider before proceeding.

The first 25% of your lump sum will be tax-free with the remainder treated as taxable income.

4) Taking a series of lump sums from your pension pot

The technical name for this option is uncrystallised funds pension lump sums (UFPLS). With this option you leave the money in your current pension fund, so it remains invested, and you take out lump sums as and when you want to, in a similar way to a savings account.

You can make ad-hoc lump sum withdrawals from your pension with the first 25% of each withdrawal being tax free and the remainder will be treated as taxable income.

5) Mix of the above options

It is possible to take your pension in a variety of ways so that you can balance having an income in retirement that is secure, flexible and suits your attitude to risk. For example, you could use part of your fund to buy an annuity whilst using the remainder for income drawdown.

Not all providers offer all of these options so it is important to check with your pension scheme which options are available for you at retirement. As previously mentioned, you should also shop around when considering your retirement options to ensure you get the best deal as it could make a significant difference to your income in retirement.

Summary

Pensions are a very complex subject and there can be a lot of technical details to grasp. Unless you have a wider interest in the subject then the main issues of interest to you as a scheme member are:

- details of the pension schemes you are in or were previously a member of
- information on the likely level of benefits from these schemes

This guide aims to equip members to find this information and to make the most of the pension provision they have.

Open schemes

This chapter goes through the main pension provision available to new entrants in the electricity sector.

Many companies offer a variety of pension arrangements. This chapter describes the main schemes offered to new entrants in the main companies in the sector. If the scheme you are a member of is not covered by this guide please contact your local Prospect rep or officer.

This guide only covers basic scheme information such as the level of contributions payable and the type of pension scheme. The amount of contributions payable by the employer is one way to assess the standard of the scheme but there are others, such as the charges that apply to your pension and how well governed your scheme is, which are not covered in this guide.

For members of defined contribution schemes, your scheme will publish an annual chair's statement which confirms how your scheme has met certain governance standards. The chair's statement will include information on:

- the default investment arrangement and its governance
- the costs and charges relating to the default investment arrangement as well as other investment options
- the level of trustee knowledge and understanding
- the assessment of value for members.

All of these items are important in assessing whether your scheme is providing value for money.

Illustrative figures

Where we provide illustrative figures on typical level of pension benefits available from schemes, these are for a sample individual joining the scheme at age 23 and staying at the company until retirement at age 65. For defined contribution schemes these figures rely heavily on assumptions about factors such as investment returns and the assumed price of annuities. The assumptions used are standard but are subject to a great deal of uncertainty, so the figures should be used for illustrative purposes only and not for financial planning. The figures are rounded heavily.

At employers where they have a matching contribution structure, i.e. they will increase their contribution if you increase yours; there are two sets of figures. One based on paying the minimum or default contribution and the other if you were to pay a higher amount to obtain the maximum contribution from your employer. Although these figures are for illustrative purposes only, this has been done to show how outcomes can potentially be improved by an increase in your contribution level.

The aim of this survey is to enable members to broadly assess the pension schemes open to new entrants in the electricity sector. Members should not rely on the information provided here in making decisions about their own pension provision. Members should refer to scheme documentation, benefit illustrations and other sources of information before making any such decisions.

The outline of pension schemes is best read in conjunction with the background to the type of pension scheme in the previous section.

The pension scheme details covered here are:

Type of scheme	Whether defined benefit or defined contribution
Member contribution rate	Contribution rate paid by member to the scheme (where salary sacrifice arrangements are in place this refers to the level of salary given up by the member)
Employer contribution rate	Contribution rate paid by employer. This is fixed and known for defined contribution schemes, but unknown for other schemes, where we have taken future service cost from the latest actuarial review (does not include salary sacrificed by member where salary sacrifice arrangements are in place)
Typical level of benefits	The estimated level of benefits for a sample member joining at age 23 and staying with the company until retiring at age 65 using standard assumptions on investment returns, salary growth, annuity prices etc.
Form of benefits	Is a tax-free lump sum provided? Does pension increase with inflation? What dependant's provision is there?
Who bears major risks?	The major risks considered here are investment risk (the risk that the value of assets backing pension falls), mortality risk (ie the risk of members living longer), interest rate risk (ie the risk that interest rates fall making it more expensive to provide pensions).

EDF Energy pension scheme	
Type of scheme	Defined benefit – career average (normal pension age linked to individual's state pension age)
Member contribution rate	5%
Employer contribution rate	Employer pays the balance of cost of the scheme. This is currently 22.1% for future service.
Typical level of benefits	Benefits accrue at a rate of 1/60ths and it is a career average scheme. Normal pension age is linked to state pension age. Member will receive pension equal to 1/60th of their earnings for each tax year. E.g. in 19/20 if members pensionable pay was £35,000, they would accrue a pension for this year of £583.33 pa.
Form of benefits	Some pension can be exchanged for tax-free lump sum on retirement, pension protected from inflation by annual increases in line with CPI. Death benefits also included within the scheme. Scheme includes a pensionable salary cap.
Who bears major risks?	Investment risk, mortality risk, interest rate risk are borne by the employer

Electricity North West	
Type of scheme	Defined contribution
Member contribution rate	3% minimum
Employer contribution rate	Matching employer contribution on 2 to 1 basis up to 14% maximum eg member contributes 3% then employer contributes 6% eg member contributes 7% then employer contributes 14% eg member contributes 8% then employer contributes 14% Where employee pays 4% or more, a deduction of 1.216% is made for life cover and income protection. This therefore reduces the amount invested in the pension scheme. eg member who contributes 4% receives an 8% employer contribution but after 1.216% deduction, total pension contribution = 10.784%
Typical level of benefits	Based on the minimum level of contribution of 3% over a full career a member might expect a pension of less than 0.20 x final salary Based on an employee contribution of 7% and employer contribution of 14% over a full career a member might expect a pension of approximately 0.40 x final salary (taking into account deduction for life cover and income protection) (Assuming member profile as given on page 23 and that the member takes no tax-free cash)
Form of benefits	Amount of tax-free cash, inflation protection and dependant's provision decided by member at retirement
Who bears major risks?	Investment risk, mortality risk, interest rate risk are borne by the member

Eon	
Type of scheme	Defined contribution
Member contribution rate	3% minimum
Employer contribution rate	Matching employer contribution on 2 to 1 basis up to 12% maximum eg member contributes 3% then employer contributes 6% eg member contributes 6% then employer contributes 12% eg member contributes 8% then employer contributes 12% Automatic escalation of contributions after 5, 10 and 15 years' service
Typical level of benefits	Based on the minimum level of contribution of 3% over a full career a member might expect a pension of less than 0.20 x final salary Based on an employee contribution of 6% and employer contribution of 12% over a full career a member might expect a pension of approximately 0.40 x final salary (Assuming member profile as given on page 23 and that the member takes no tax-free cash)
Form of benefits	Amount of tax-free cash, inflation protection and dependant's provision decided by member at retirement
Who bears major risks?	Investment risk, mortality risk, interest rate risk are borne by the member

Innogy	
Type of scheme	Defined contribution
Member contribution rate	3% minimum
Employer contribution rate	Matching employer contribution on 2 to 1 basis up to 10% maximum eg member contributes 3% then employer contributes 6% eg member contributes 5% then employer contributes 10% eg member contributes 7% then employer contributes 10%
Typical level of benefits	Based on the minimum level of contribution of 3% over a full career a member might expect a pension of less than 0.20 x final salary Based on an employee contribution of 5% and employer contribution of 10% over a full career a member might expect a pension of approximately 0.30 x final salary (Assuming member profile as given on page 23 and that the member takes no tax-free cash)
Form of benefits	Amount of tax-free cash, inflation protection and dependant's provision decided by member at retirement
Who bears major risks?	Investment risk, mortality risk, interest rate risk are borne by the member

National Grid	
Type of scheme	Defined contribution
Member contribution rate	3% minimum
Employer contribution rate	Matching employer contribution on 2 to 1 basis up to 12% maximum eg member contributes 3% then employer contributes 6% eg member contributes 6% then employer contributes 12% eg member contributes 7% then employer contributes 12%
Typical level of benefits	Based on the minimum level of contribution of 3% over a full career a member might expect a pension of less than 0.20 x final salary Based on an employee contribution of 6% and employer contribution of 12% over a full career a member might expect a pension of approximately 0.40 x final salary (Assuming member profile as given on page 23 and that the member takes no tax-free cash)
Form of benefits	Amount of tax-free cash, inflation protection and dependant's provision decided by member at retirement
Who bears major risks?	Investment risk, mortality risk, interest rate risk are borne by the member

Northern Ireland Electricity Networks	
Type of scheme	Defined contribution
Member contribution rate	4.5% minimum
Employer contribution rate	Matching employer contribution up to 7% maximum eg member contributes 4.5% then employer contributes 4.5% eg member contributes 7% then employer contributes 7% eg member contributes 10% then employer contributes 7% Increased employer contribution of 8% after 10 years' service then 9% after 15 years' service which does not have to be matched by employee.
Typical level of benefits	Based on the minimum level of contribution of 4.5% over a full career a member might expect a pension of less than 0.20 x final salary Based on an employee contribution of 7% and employer contribution starting at 7% and then progressing to 9% over a full career a member might expect a pension of approximately 0.30 x final salary (Assuming member profile as given on page 23 and that the member takes no tax-free cash)
Form of benefits	Amount of tax-free cash, inflation protection and dependant's provision decided by member at retirement
Who bears major risks?	Investment risk, mortality risk, interest rate risk are borne by the member

Northern Powergrid	
Type of scheme	Defined contribution
Member contribution rate	Minimum of half of employer contribution for new joiner i.e. lowest = 4%
Employer contribution rate	Employer contribution based on grade and length of service as follows: Pay point 3-16 - 0-7 years' service – 8% Pay point 3-16 - 8+ years' service – 10% Pay point 17-23 - 0-3 years' service – 8% Pay point 17-23 - 4+ years' service – 10% Level 4 pay point 21 to 26 - 0-3 years' service – 10% Level 4 pay point 21 to 26 - 4+ years' service – 12% ETL pay point 19-24 - From day one – 12%
Typical level of benefits	Based on the contributions payable by a member in the pay point range of 3-16, over a full career a member might expect a pension of approximately 0.25 x final salary (Assuming member profile as given on page 23 and that the member takes no tax-free cash)
Form of benefits	Amount of tax-free cash, inflation protection and dependant's provision decided by member at retirement
Who bears major risks?	Investment risk, mortality risk, interest rate risk are borne by the member

RWE	
Type of scheme	Defined contribution
Member contribution rate	3% minimum
Employer contribution rate	Matching employer contribution on 2 to 1 basis up to 10% maximum eg member contributes 3% then employer contributes 6% eg member contributes 5% then employer contributes 10% eg member contributes 6% then employer contributes 10%
Typical level of benefits	Based on the minimum contribution level of 3% over a full career a member might expect a pension of less than 0.20 x final salary Based on an employee contribution of 5% and employer contribution of 10% over a full career a member might expect a pension of approximately 0.30 x final salary (Assuming member profile as given on page 23 and that the member takes no tax-free cash)
Form of benefits	Amount of tax-free cash, inflation protection and dependant's provision decided by member at retirement
Who bears major risks?	Investment risk, mortality risk, interest rate risk are borne by the member

Scottish Power	
Type of scheme	Defined contribution
Member contribution rate	5%
Employer contribution rate	10%
Typical level of benefits	Based on the minimum employee contribution of 5% and an employer contribution of 10%, over a full career a member might expect a pension of approximately 0.30 x final salary (Assuming member profile as given on page 23 and that the member takes no tax-free cash)
Form of benefits	Amount of tax-free cash, inflation protection and dependant's provision decided by member at retirement
Who bears major risks?	Investment risk, mortality risk, interest rate risk are borne by the member

SSE	
Type of scheme	Defined contribution
Member contribution rate	4.5% minimum*
Employer contribution rate	Matching employer contribution up to 6%. Additional 3% paid after 5 years' service and another 3% payable after 10 years' service eg member contributes 4.5% then employer contributes 4.5% eg member contributes 6% then employer contributes 6% eg member contributes 7% then employer contributes 6% eg after 5 years' service member contributes 6% then employer contributes 9% eg after 10 years' service member contributes 6% then employer contributes 12% *The default contribution rate is 6% from the employee and 6% from the employer
Typical level of benefits	Based on the default level of contribution of 6% over a full career a member might expect a pension of approximately 0.35 x final salary (Assuming member profile as given on page 23 and that the member takes no tax-free cash)
Form of benefits	Amount of tax-free cash, inflation protection and dependant's provision decided by member at retirement
Who bears major risks?	Investment risk, mortality risk, interest rate risk are borne by the member

UK Power Networks	
Type of scheme	Defined contribution
Member contribution rate	3% minimum*
Employer contribution rate	Matching employer contribution on 2 to 1 basis up to 10% maximum eg member contributes 3% then employer contributes 6% eg member contributes 5% then employer contributes 10% eg member contributes 6% then employer contributes 10% *The default contribution rate is 4% from the employee and 8% from the employer
Typical level of benefits	Based on the default level of contribution of 4% over a full career a member might expect a pension of approximately 0.25 x final salary Based on an employee contribution of 5% and employer contribution of 10% over a full career a member might expect a pension of approximately 0.30 x final salary (Assuming member profile as given on page 23 and that the member takes no tax-free cash)
Form of benefits	Amount of tax-free cash, inflation protection and dependant's provision decided by member at retirement
Who bears major risks?	Investment risk, mortality risk, interest rate risk are borne by the member

Uniper	
Type of scheme	Defined contribution
Member contribution rate	3% minimum
Employer contribution rate	Matching employer contribution on 2 to 1 basis up to 12% maximum eg member contributes 3% then employer contributes 6% eg member contributes 6% then employer contributes 12% eg member contributes 8% then employer contributes 12%
Typical level of benefits	Based on the minimum level of contribution of 3% over a full career a member might expect a pension of less than 0.20 x final salary Based on an employee contribution of 6% and employer contribution of 12% over a full career a member might expect a pension of approximately 0.40 x final salary (Assuming member profile as given on page 23 and that the member takes no tax-free cash)
Form of benefits	Amount of tax-free cash, inflation protection and dependant's provision decided by member at retirement
Who bears major risks?	Investment risk, mortality risk, interest rate risk are borne by the member

United Utilities	
Type of scheme	Defined contribution
Member contribution rate	3% minimum
Employer contribution rate	Matching employer contribution on 2 to 1 basis up to 14% maximum eg member contributes 3% then employer contributes 6% eg member contributes 7% then employer contributes 14% eg member contributes 8% then employer contributes 14%
Typical level of benefits	Based on the minimum contribution level of 3% over a full career a member might expect a pension of less than 0.20 x final salary Based on an employee contribution of 7% and employer contribution of 14% over a full career a member might expect a pension of approximately 0.45 x final salary (Assuming member profile as given on page 23 and that the member takes no tax-free cash)
Form of benefits	Amount of tax-free cash, inflation protection and dependant's provision decided by member at retirement
Who bears major risks?	Investment risk, mortality risk, interest rate risk are borne by the member

Veolia	
Type of scheme	Defined contribution
Member contribution rate	3% minimum
Employer contribution rate	Employer contribution of 5%
Typical level of benefits	Based on the minimum level of contribution of 3% over a full career a member might expect a pension of less than 0.20 x final salary (Assuming member profile as given on page 23 and that the member takes no tax-free cash)
Form of benefits	Amount of tax-free cash, inflation protection and dependant's provision decided by member at retirement
Who bears major risks?	Investment risk, mortality risk, interest rate risk are borne by the member

Western Power Distribution (WPD)	
Type of scheme	Defined contribution
Member contribution rate	3% minimum
Employer contribution rate	Matching employer contribution on 2 to 1 basis up to 10% maximum eg member contributes 3% then employer contributes 6% eg member contributes 5% then employer contributes 10% eg member contributes 6% then employer contributes 10% *10% matching employer contribution available from 1 April 2021, it is currently 8%
Typical level of benefits	Based on the minimum level of contribution of 3% over a full career a member might expect a pension of less than 0.20 x final salary Based on an employee contribution of 5% and employer contribution of 10% over a full career a member might expect a pension of approximately 0.30 x final salary (Assuming member profile as given on page 23 and that the member takes no tax-free cash)
Form of benefits	Amount of tax-free cash, inflation protection and dependant's provision decided by member at retirement
Who bears major risks?	Investment risk, mortality risk, interest rate risk are borne by the member

Conclusion and further information

Having read this guide you are hopefully in a position where you understand the basics of how your pension works and what benefits your employer offers.

Now that you have this information, you may consider taking the following actions:

- Use the information given in this guide along with the online tools that have been signposted to gauge whether you are on track to have the level of pension income that you want in retirement
- Compare the contribution level that your employer currently pays with other employers in the sector
- Obtain the annual chair's statement for your scheme to assess whether your scheme provides you with value for money. The level of charges payable and how well your scheme is being run are good indicators of this. The statement will detail the governance arrangements for the scheme and this area should not be underestimated as it can also have a significant impact on your retirement
- If you feel that your employers contribution is poor or lower than it should be when compared to its comparators or if you believe that the scheme is not providing value for money, raise these issues with your local rep or officer so that they can be highlighted with the company and improvements can by lobbied for

The information provided in this guide is a brief summary of the benefits offered by the main pension schemes open to new entrants in the electricity sector. Pension provision in this sector is constantly changing and members should not base any financial decisions based on the information in this guide.

In the first instance members should refer to scheme booklets and benefit illustrations for comprehensive information on their pension entitlement.

The Prospect website (www.prospect.org.uk) contains further information on general issues relating to pensions and on pensions in the electricity sector.

Information on the State Pension is available from the Department for Work and Pensions (https://www.gov.uk/browse/working/state-pension).

The Pensions Advisory Service also maintains a website with comprehensive information on pensions (www.pensionsadvisoryservice.org.uk).

If particular pension related issues arise, members can raise them with their local Prospect rep.

Glossary

Accrual rate: The rate at which pension benefits are earned, e.g. in a final salary pension scheme with an accrual rate of 60ths, for every year of service the member earns a pension of $1/60^{th}$ of their final salary.

Annuity: An insurance policy that provides pension income in retirement.

Automatic enrolment: Automatic enrolment is a government initiative to help more people save for later life through a pension scheme at work. Automatic enrolment legislation makes it compulsory for employers to automatically enrol their eligible workers into a pension scheme and make contributions on their behalf.

Basic State Pension: Pension paid by the state from state pension age dependent on the record of national insurance contributions.

Closed scheme: An occupational pension scheme that does not admit new members (and may sometimes not provide further benefits to existing members).

Commutation: The option to surrender pension in return for lump sum.

Consumer Price Index (CPI): A measure of changes in the price level of a weighted average market basket of consumer goods and services purchased by households. This measure of inflation is used by pension schemes to increase pensions in payment.

Contracting out: Opting out of the State Second Pension and paying lower national insurance contributions and earning less in state benefits.

Defined benefit: A pension scheme that provides benefits based on a formula set by scheme rules and which is independent of the contributions paid by the member or the performance of any underlying investments. The employer pays the balance of any cost of providing a defined benefit pension and bears the risk of the cost being higher than expected. Final salary and career average pension schemes are types of defined benefit pension schemes.

Defined contribution: A pension scheme in which member and employer contributions are invested and the accumulated pension pot can be used to secure income at retirement. The contributions paid to the scheme are fixed and known but the investment returns and cost of securing income in retirement are unknown so there is no certainty about the retirement income this type of pension scheme will deliver.

Electricity Supply Pension Scheme (ESPS): Mainly thought of as a final salary pension scheme for workers in the electricity supply industry. Since privatisation this has been separated into different groups for each company. Many companies have closed their groups to new entrants to the company (except where a new employee was already a member of a different group of the ESPS) and have opened a defined contribution pension scheme instead (though some employers run their defined contribution pension scheme through the electricity supply pension scheme).

Final salary: A defined benefit pension scheme that provides a benefit related to a member's earnings before leaving the pension scheme and their length of service in the scheme. The precise definition of "final salary" is specified in the scheme rules.

Lifestyling: An investment option often available to defined contribution scheme members that usually involves funds being automatically switched from more volatile asset classes to less volatile asset classes as the member approaches retirement.

Minimum pension age: Normal minimum pension age is the youngest age at which a member of a registered pension scheme can ordinarily expect to take their benefits.

National Insurance Contributions: Contributions paid by employees and their employers and the self-employed that are deducted from payroll or paid through self-assessment alongside income tax; they qualify the contributors for certain state benefits.

Normal pension age: The age at which members can take defined benefit pension scheme benefits unreduced. Not necessarily the same as retirement age or state pension age.

Occupational pension scheme: A pension scheme set up by an employer to provide pension benefits to employees.

Open scheme: An occupational pension scheme that still admits new members.

Pension Protection Fund: Provides compensation to members of eligible defined benefit pension schemes if the employer becomes insolvent and there are insufficient assets in the pension scheme. It is funded by compulsory annual levies on all eligible schemes.

Personal pension: A defined contribution pension scheme arranged by an employee on their own behalf.

Protected person: An employee who was employed, and has been continually employed, in the electricity sector since privatisation and is therefore protected from detrimental changes to their pension provision by the Electricity Act 1989 and subsequent regulations. Other employees who joined after privatisation and were members of final salary pension schemes may also be protected by ‘no detriment’ rules in the scheme.

Retail Price Index (RPI): A measure of the average change in the prices of goods and services in the UK. Produced by the Office of National Statistics and used by pension schemes to increase pensions in payment in order to maintain their real value.

Salary sacrifice: This is an arrangement that employers may make available to employees – the employee agrees to reduce their earnings by an amount equal to their pension contributions - in exchange, the employer then agrees to pay the total pension contribution.

Stakeholder pension scheme: A specific type of personal pension scheme which meets certain criteria set by government regarding costs and other aspects.

State Pension Age: This is the earliest age that state pension can be paid from. State Pension Age was equalised at 65 for men and women in November 2018. It has been increasing slowly since then and will be 66 for men and women by October 2020. Under current legislation, State Pension Age will increase to 67 by April 2028 and 68 by April 2048 (with a short phasing in period beforehand).

State Second Pension: A second state pension benefit paid in addition to the basic state pension. Only payable in full to people who are not contracted out (though even contracted out employees may receive a small amount of state second pension depending on their earnings). A complicated benefit which can either be a fixed, flat-rate amount or related to earnings. Reformed over time to become a simple, flat-rate amount.

Tax relief: Pension scheme contributions and investment returns are free of tax. Up to 25% of a member’s pension pot can be taken as a tax-free lump sum. Pension income is subject to income tax.