Consultation on proposed changes to Unite Pension Scheme from 1 January 2023

Frequently Asked Questions (FAQs)

These FAQs are to help you understand the proposed changes to Unite Pension Scheme (the Scheme) from 1 January 2023. These FAQs have been prepared by Unite and are for all current employees.

This document aims to answer some of your possible questions. If you have a question that has not been covered then contact details are provided in Q4.4 below.

This document outlines the main features of the Scheme, but it does not cover every detail. The official documents governing the Scheme are its legally governing Trust Deed and Rules. The formal deeds and rules would always override this document, if any difference came to light between the two.

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1. Overview of the proposed changes

1.1. Outline of the proposal

Unite is committed to offering employees a good, sustainable defined benefit (DB) scheme.

In a DB scheme, your pension is calculated using a formula based on the length of your pensionable service and your pensionable salary at or around the date you leave the Scheme. The pension you receive at retirement is "defined" in advance, and is not dependent, for example, on how much you have contributed, or how the pension scheme investments have performed.

Unite is proposing the following changes to your Scheme:

- Reducing the pension payable to a Partner after your death in retirement from 50% to 30%
- Increasing the average contribution rate from employees by 1% on average, with a greater increase for higher paid employees.

The proposal only affects active members of (and those eligible to join) the Scheme and only affects benefits in respect of your future service with the Union. It will not affect deferred or pensioner members.

The Union is proposing that the changes take effect from 1 January 2023. **Past benefits i.e. all benefits built up before 1 January 2023 will be protected and unchanged.**

The changes to future service benefits require Unite by law to consult with their employees about the proposed changes for a minimum period of 60 days. The consultation runs from 28 January 2022 to 28 March 2022.

1.2. Proposed changes in detail

Partner's pension

If you die after you have retired from the Scheme, a pension is paid to your Partner of 50% of the pension payable to you had you not exchanged any pension for a cash lump sum at retirement. It is proposed this percentage reduces from 50% to 30% for Service from 1 January 2023.

There are no proposed changes to the pension payable to your Partner if you die before you retire from the Scheme (either whilst you are an active Scheme member or in the period between leaving the Scheme and retiring), nor to the pension that would be payable to any eligible Children on your death.

Partner broadly means either:

- *a Legal Spouse (Widow, Widower or Civil Partner), or*
- *a person co-habiting in a relationship similar to marriage with you, and who is either financially dependant on you, or is in a financially mutual relationship with you.*

If you were a member of the Scheme before 1 January 2013, your benefits built-up before that date have different rules to calculate the Partner's pension.

Employee contribution rates

Currently, employees contribute 11% of Salary if their chosen build-up rate is 1/60th and 8% of Salary if their chosen build up rate is 1/70th.

The proposed changes include increasing the average employee contribution rate by 1% of Salary. It is proposed that:

- Employee contribution rates for those on grades 1-5 do not increase
- Employee contribution rates for those on grades 6-9 increase by 1%
- Employee contribution rates for those on grades 10+ increase by 1.3%

A good pension scheme is an important part of our reward package and the Union does not want colleagues opting out of the Scheme because they cannot afford to participate. Our pension scheme opt-out rate is extremely low and the proposals have been designed to maintain that. The Union believes it's also right that higher earners, who benefit from higher rate tax relief, pay more into the Scheme. The modeller will be helpful for you to understand the proposals and see the impact on your monthly take home pay.

1.3. Why is Unite proposing to make these changes?

Every three years, the Trustee of the Scheme is required to conduct a financial assessment of the Scheme. The most recent valuation has revealed that the cost of benefits building up in the Scheme has increased significantly. These increases are largely due to lower future expected investment returns (in a low interest rate environment). In addition, inflationary pressures have not reduced and there is concern they may increase.

The latest actuarial valuation revealed that the annual cost of benefits members are building up had increased to a total of 38.2% of pensionable salaries (to which members, on average, contribute 10.7%).

Historically the Union has paid a contribution rate of 16.0% of pensionable salaries as it has sought to provide a balance between what is paid into the Scheme and what is available to allow the Union to support its members. If no changes were made to benefits, there would be a requirement to increase contributions from this 16.0% level by around 11.5% of pensionable salaries.

The Union has agreed to increase its contribution rate to the Scheme by 9.2% of pensionable salaries, taking its pension contributions from 16.0% to 25.2% (equating to around an extra £4.1m each year). Part of this increase in cost is met from the 3.3% balance of the 7.5% RPI pay increase for 2022.

The Union is proposing that the remaining 2.3% is met by a small reduction in active members' future service benefits and increase in active members' contributions.

The Union believe the proposal best meets the Scheme members' interests within the given constraints. There will be no change to benefits already built up.

1.4. When will the proposed changes take effect?

The proposal is for the changes to take effect on and from 1 January 2023. As part of this process, Unite will be consulting with you for a 60-day period. This is your chance to give us your views on the proposed changes to future benefits. The consultation period will run from 28 January 2022 to 28 March 2022.

Throughout the consultation period, Unite will carefully consider all the comments made during the consultation and there will be ongoing discussions with the recognised unions during this period. At the end of the consultation period, responses will be reported to Unite Executive along with recommendations about whether to make any adjustments to the proposals. Unite will then let you know what has been decided.

1.5. How are benefits earned up to 31 December 2022 affected?

Past service benefits are protected and unchanged by the proposals.

Your pension in the Scheme will continue to be calculated as it is now, counting pensionable service up to and including 31 December 2022.

1.6. Opting out

Employees retain the option to opt-out of the Scheme. Once you have been a Scheme member for more than 1 month, you must give at least 3 months' notice to opt out of the Scheme.

If you opt out, you will earn no pension and pay no contributions. Unite will re-enrol you into a pension scheme at certain times as required by law. If you have previously opted-out of the Scheme, you will be re-enrolled into the Union's stakeholder scheme (which is not a DB pension scheme).

The Scheme provides valuable benefits for you and your family. The majority of the cost of the Scheme is paid for by Unite. Unite hopes that you join and remain in the Scheme.

1.7. Is my agreement needed to the changes?

Unite is not required by law to obtain your agreement to the benefit changes. However, Unite is required by law to consult with its employees (and their representatives) on the proposed future benefit changes for a minimum period of 60 days.

Although, under pensions law, your agreement to the changes is not needed the Union would like you to participate fully in the consultation process and understand the reasons behind the proposal. Unite will listen carefully to and consider any comments you provide it with before the consultation period closes. Once the consultation has closed, Unite will make a decision in relation to the proposal based on those comments before informing you of the outcome.

Further details of how you can provide Unite with your comments on its proposal can be found at the end of these FAQs.

2. How the proposals affect your benefits

2.1. How is my pension calculated?

For each year you are a member the Scheme, you build-up a proportion of your salary. The benefits you are currently building up are calculated using the salary near to the time you retire. This type of DB scheme is known as a “Final Salary” scheme.

The pension you are currently building up are calculated as:

Pension build-up rate (1/60th or 1/70th)	x	**Your Pensionable Service**	x	**Your Pensionable Salary**	=	**Your pension at age 63***

**The Union also offers a discretionary Union Enhanced Retirement Age, which is not set out in the Scheme Rules. This allows active members to retire from their State Pension Age less 5 years without any actuarial reduction to their benefits.*

You will also build up an additional cash lump sum to be paid at retirement, calculated as:

Additional cash build-up rate (1.7%)	x	**Your Pensionable Service**	x	**Your Pensionable Salary**	=	**Your additional cash at age 63***

**or Union Enhanced Retirement Age if earlier*

If you were a member of the Scheme before 1 January 2013, your benefits built-up before that date may be calculated using a different formula.

When you retire, you also have the option to exchange some pension for additional tax-free cash up to the tax-free cash limits imposed by HMRC.

2.2. How do the proposals affect the death-in-retirement benefits?

Partner’s pension

Currently, if you die after you have retired from the Scheme, a pension is paid to your Partner of 50% of the pension payable to you had you not exchanged any pension for a cash lump sum at retirement. If the proposed changes go ahead, the Partner’s pension would reduce from 50% to 30% from 1 January 2023.

Note that if you die within 5 years of retiring and before age 75, a cash sum would be payable broadly equal to the pension payments you would have received for the rest of the 5 year period. **For the avoidance of doubt, there is no proposed change to the 5-year guarantee payment if you die within 5 years of retiring.**

Partner broadly means either:

- *a Legal Spouse (Widow, Widower or Civil Partner), or*
- *a person co-habiting in a relationship similar to marriage with you, and who is either financially dependant on you, or is in a financially mutual relationship with you.*

If you were a member of the Scheme before 1 January 2013, your benefits built-up before that date have different rules to calculate the Partner's pension.

Example

An active member was a member of the Scheme for 10 years from 1 January 2018 to 31 December 2027 when they retired.

They did not swap any pension for a tax-free lump sum at retirement, and they died in retirement more than 5 years after retiring. The table below shows the calculation of the pension payable to their Partner.

	Partner's pension %	Member's pension at date of death	Partner's pension at date of death
1 January 2018 to 31 December 2022	50%	£5,000 pa	£2,500 pa
1 January 2023 to 31 December 2027	30%	£5,000 pa	£1,500 pa
Total		**£10,000 pa**	**£4,000 pa**

The benefits built up before 1 January 2023 are not affected by the proposed changes, so the Partner's pension calculation for that period does not change, and is still calculated as 50% of the member's pension. The Partner's pension built up from 1 January 2023 would be 30% of the member's pension.

In this example, the Partner would receive a pension of 40% overall of the pension payable to the member at the date of death. The Partner's pension would be the same in this example whether or not the member exchanges pension for cash at retirement.

Children's pension

If you were to die while you remain employed by the Union, a pension is payable to any eligible Child. **The amount payable is not changing as part of this consultation.**

The amount payable to a Child depends on whether there is a Partner and/or how many eligible Children:

- If a Partner's pension is payable and there is only one eligible Child, it is 25% of the pension payable to you had you not exchanged any pension for a cash lump sum at retirement.

- If a Partner's pension is payable and there is more than one eligible Child, they will split the equivalent of 50% of the pension payable to you had you not exchanged any pension for a cash lump sum at retirement

- If there is no Partner's pension payable, it is the equivalent of 50% of the pension payable to you had you not exchanged any pension for a cash lump sum at retirement split amongst the eligible Children.

A Child is a child (including a child not yet born), adopted child or step-child of a member or former member, or a child who is dependent on the Member or former Member concerned and in every case (i) he or she has not reached the age of 18 or age 23 if he/she is in full time education or vocational training, or (ii) he or she has reached that age and, in the opinion of the Trustees, was at the date of the Member's or former Member's death dependant on him or her because of physical or mental impairment. The Trustees have the right to cease the pension if the child is no longer suffering from physical or mental impairment.

2.3. How would my take home pay be affected by the proposals?

The proposed changes include increasing the average employee contribution rate by 1% of Salary. It is proposed that:

- Employee contribution rates for those on grades 1-5 do not increase

- Employee contribution rates for those on grades 6-9 increase by 1%

- Employee contribution rates for those on grades 10+ increase by 1.3%

The easiest way for you to see how the proposals will affect your take-home pay is to use the **take-home pay modeller**. The modeller can be accessed on the consultation page of the Scheme website: https://www.unitepensions.org/Members/Consultation

All you need to use the modeller is your Salary and your salary grade.

In the tables below, we give some examples of how take home pay changes with the change in pension contribution rate. The examples assume that members currently pay 11% for a 60th accrual rate, participate in Salary Exchange (Unite's salary sacrifice arrangement) to pay their contribution and the figures are calculated using the 2022/23 National Insurance and Income Tax rates:

Salary	Salary grade group	Current contribution rate	New contribution rate	Change in monthly take home pay
£30,000	1 – 5	11.0%	11.0%	No change
£40,000	6 – 9	11.0%	12.0%	Down £22
£50,000	6 – 9	11.0%	12.0%	Down £28
£60,000	10 +	11.0%	12.3%	Down £37
£70,000	10 +	11.0%	12.3%	Down £43

2.4. What will Unite contribute to the Scheme for future benefits?

Historically the Union has paid a contribution rate of 16.0% of pensionable salaries as it has sought to provide a balance between what is paid into the Scheme and what is available to allow the Union to support its members.

The Union has agreed to increase its contribution rate to the Scheme by 9.2% of pensionable salaries, taking employer pension contributions from 16.0% to 25.2% (equating to around an extra £4.1m each year). Part of this increase in cost is met from the 3.3% balance of the 7.5% RPI pay increase for 2022.

2.5. What else will Unite contribute to the Scheme?

In a DB scheme the employer pays the balance of the cost and underwrites the funding risks.

The most recent actuarial valuation at 30 September 2020 revealed a deficit in the Scheme (i.e. the money needed to pay the benefits built-up is more than the Scheme assets) of around £11m at the valuation date. To meet this deficit plus interest, and the shortfall between contributions paid and the cost of the benefits built up since the valuation date, the Union has proposed to make a one-off contribution of £22m to the Scheme in April 2022.

The proposals have been developed to aim to ensure the risk of future deficits is at an acceptable level so that the Scheme is sustainable for Unite and its members.

2.6. How do the proposals affect the death-in-service benefits?

There are no proposed changes to any death-in-service benefits. A reminder of these benefits is below.

Lump sum death benefit

If you were to die while you remain employed by the Union, a lump sum would be payable of 4 times your basic salary.

Partner's pension

If you were to die while you remain employed by the Union, a pension would be payable to your Partner of 50% of the pension you would have been entitled to at Normal Retirement Age using your Pensionable Salary at time of death but allowing for Pensionable Service up to Normal Retirement Age (subject to a maximum of 35 years).

Children's pension

As set out in Q2.2 above.

2.7. How do the proposals affect the benefits payable on Incapacity?

There are no proposed changes to the eligibility or benefits payable on Incapacity.

More information is set out on page 11 of the Scheme Booklet, which you can access on the Scheme website: https://www.unitepensions.org/Members/Documents

2.8. How do the proposals affect Additional Voluntary Contributions (AVCs)?

There are no proposed changes to the AVC arrangement. More information on how AVCs currently work in the Scheme can be found on the Scheme website: https://www.unitepensions.org/Members/AVCs

2.9. Is there a limit on the amount of pension I can build up in the Scheme?

There are two Scheme specific limits on your benefits:

- Your Scheme pension cannot be more than 75% of your Final Pensionable Salary
- A limit of 35 years of pensionable service

If you reach the 35-year limit, you will stop building up benefits in the Scheme and your contributions to the Scheme will also stop. Any Final Salary benefits would continue to be linked to your Pensionable Salary until you retire (or leave the Scheme) and you will still be covered for death benefits.

The pension Scheme administrators will inform you if you are approaching either of these limits.

2.10. Can I access different parts of my Scheme pension at different times?

No. When you retire from the Scheme, you will have to take your entire pension in one go.

2.11. Can I still swap some pension for a tax-free lump sum at retirement?

Yes, you will still have the option to exchange part of your pension for a further tax-free cash lump sum at retirement up to the maximum permitted by the Scheme.

The maximum permitted is equal to 25% of the value of your benefits from the Scheme. You also build up an automatic entitlement to a Scheme additional cash lump sum alongside your pension, which means that you will need to exchange less of your pension to obtain the maximum tax-free cash lump sum available to you than you would otherwise.

2.12. What will my pension build up rate (or accrual rate) be after 1 January 2023?

Your pension build-up rate (1/60th or 1/70th) from 1 January 2023 will be the same as it is on 31 December 2022.

2.13. Can I change my pension build up rate?

Yes, you can continue to change your pension build up rate to either 1/60th or 1/70th once a year, by informing the Union's payroll department by 1 March.

2.14. Can I still choose to pay my contributions by salary sacrifice?

If you are currently eligible to pay your contributions by salary sacrifice, you will continue to be able to do so after 1 January 2023.

3. Other questions about the proposals

3.1. What alternatives were considered?

Unite has considered a wide range of options before settling on the proposal. Unite believes that the proposed design best meets the Scheme members' interests within the given constraints.

Unite is pleased to be proposing the continuation of a high-quality Final Salary scheme.

3.2. Have the proposals been discussed with the Trustee of the Scheme

The level of employee benefits is an employer matter which is agreed between the Union and its employees. Implementation of the benefit changes requires the consent of the Schemes' Trustees as the changes would require a change to the Schemes' Trust Deed and Rules. Once the consultation period is complete, the Union will ask the Trustees to agree to these changes and amend the Rules accordingly.

3.3. Could there be further changes in the future?

The Union does not have any plans at the current time to change benefits in the future after this set of benefit changes have been finalised. The Union has proposed a benefit design which it hopes will remain within the cost limits set by the Executive Council. However, should economic conditions change such that the new benefit structure is not sustainable, then the Union may consult over further benefit changes

3.4. What would happen if the Union went insolvent?

The Scheme may enter the Pension Protection Fund (PPF) in the event that the Union becomes an insolvent employer, and there are insufficient assets in the Scheme to pay all members benefits up to the PPF level, as measured on a prescribed basis set out by the board of the PPF.

3.5. What are the benefits provided by the Pension Protection Fund?

For members below their Normal Retirement Age, the pension provided by the PPF would be broadly 90% of what they are entitled to under their pension scheme.

Members above their Normal Retirement Age will continue to receive their full pension.

Members' pensions will increase between the date at which they join the PPF and when they retire in line with CPI inflation. This annual increase will be subject to a cap of 5% for compensation linked to pensionable service prior to 6 April 2009, and a cap of 2.5% in respect of compensation linked to pensionable service on or after 6 April 2009.

Once you retire, your pension will increase in payment at the following rate:

- For pension in respect of service before 6 April 1997 – this pension will not increase in payment.
- For pension in respect of service after 6 April 1997 – this pension will increase in line with CPI subject to a maximum of 2.5% pa

On death in retirement your spouse would be entitled to a pension equal to half of your pension at the time of your death.

The above description of the PPF benefits is based on the current PPF rules. Further details are available at www.ppf.co.uk/our-members.

4. What happens next?

4.1. What do I need to do now?

The 60-day consultation is your chance to ask questions and to tell us your views on the proposals. Please read these FAQs and let us know if you need any further information on the proposals.

As part of the consultation with you, Unite will also be holding group presentations about the proposed pension changes in March. Details of these meetings can be found in the letter dated 9 March 2022 and on the consultation page of the Scheme website: https://www.unitepensions.org/Members/Consultation

An online modeller has been created which you can use to see the impact of the proposed changes on your take home pay, which can be accessed on the consultation page of the Scheme website: https://www.unitepensions.org/Members/Consultation

4.2. How can I book onto a pension webinar?

The pension webinars are being run from 14 to 25 March. You can register for a pension webinar on the consultation page of the Scheme website: https://www.unitepensions.org/Members/Consultation

4.3. What is the role of the Pensions Regulator?

The Pensions Regulator is the body that regulates work-based pension arrangements. The Pensions Regulator can take action where it appears that an employer has failed to comply with the consultation requirements under the relevant regulations.

For further information and contact details please see the Regulator's website at www.thepensionsregulator.gov.uk.

4.4. Where do I send my questions or feedback?

If you want to provide feedback or ask a question that has not been covered please email unitepension2022@unitetheunion.org.

Should you wish to feedback any comments or queries to your reps of the bargaining groups during the consultation they can be contacted as follows:

- **Officers**: ONCpensions2022@unitetheunion.org
- **Unite Staff**: UNSCpensions2022@unitetheunion.org
- **GMB Staff**: GMBNSCpensions2022@unitetheunion.org
- **Organisers**: NOCpensions2022@unitetheunion.org

4.5. When does the consultation close and what happens then?

The consultation runs for 60 days until 28 March 2022 and we would welcome your feedback before then.

You will then be notified about the outcome of the consultation.

Important notes

This document outlines the main features of the Scheme, but it does not cover every detail. The official documents governing the Scheme are its legally governing Trust Deed and Rules. The formal deeds and rules would always override this document, if any difference came to light between the two.