



**Consultation – on proposals for Pension Reform  
relating to active members of:**

- 1) Combined Nuclear Pension Plan (CNPP);**
- 2) Magnox Electric Group of the Electricity Supply  
Pension Scheme (MEG ESPS)**

**9 January 2017 – 10 March 2017**



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## Introduction and scope

This consultation represents a key step in the process of public sector pension reform which began with the Hutton report in 2011. This report made recommendations to Government regarding the long-term affordability and sustainability of public service pension schemes and Government policy is to accept the report's recommendations.

This consultation will focus on Government plans to reform the two current NDA final salary/defined benefit (DB) Pension Schemes:

- Combined Nuclear Pension Plan (CNPP)
- Magnox Electric Group of the Electricity Supply Pension Scheme (MEG ESPS)

The Employers undertaking this consultation are:

- Sellafield Ltd, registered office at Hinton House, Birchwood Park Avenue, Risley, Warrington WA3 6GR, company number: 1002607.
- Magnox Ltd, registered office at Oldbury Technical Centre, Oldbury Naite, Thornbury, South Gloucestershire, BS35 1RQ, company number: 0226425.
- Dounreay Site Restoration Ltd, registered office at Dounreay Site Restoration Limited, Building D2003, Dounreay, Thurso, Caithness, Scotland, KW14 7TZ, company number: SC307493.
- Low Level Waste Repository Ltd, registered office at Old Shore Road, Drigg, Holmrook, Cumbria, United Kingdom, CA19 1XH, company number: 05608448.
- Direct Rail Services Ltd, registered office at Herdus House, Westlakes Science and Technology Park, Moor Row, Cumbria, CA24 3HU, company number: 3020822
- International Nuclear Services Ltd, registered office at Herdus House, Westlakes Science & Technology Park, Moor Row, Cumbria CA24 3HU, company number: 1144352.

This consultation document sets out the two arrangements under consideration through which affected pensions could be reformed:

1. Career Average Revalued Earnings (CARE); or
2. A Pensionable Pay Cap

During consultation we are inviting comments in respect of the proposal to reform NDA estate pensions and, in particular, the options under consideration and any issues that the proposals raise.

We have included questions throughout this consultation document about the areas where we would particularly welcome your views. However, respondents should not feel limited to responding to the specific questions documented.

This consultation is about the proposed changes to the existing NDA estate final salary schemes, and does not relate to individual providers, charges or investment choices, all of which are regularly reviewed by the Pension Scheme Trustees.

Consultation commences on Monday 9<sup>th</sup> January 2017 and NDA will accept responses until midnight on Monday 10<sup>th</sup> March 2017.

Once the consultation has concluded, feedback from affected scheme members and their representatives will be shared with Government to assist Ministers in reaching a decision. Once we have confirmation from Government on how they intend to proceed we will update you on this and the



next steps. A final decision on pension reform will only be made by Government following the consultation period.



## Background and context

There are 2 final salary schemes in scope for this consultation:

### 1. **Combined Nuclear Pension Plan (CNPP)**

The active employees of the Site Licence Companies (LLW Repository, Magnox, Dounreay Site Restoration Ltd) and NDA subsidiaries (Sellafield, Direct Rail Services, International Nuclear Services) who participate in the defined benefit, final salary structures of the CNPP. Approximately 9,000 scheme members as at 31 March 2016.

### 2. **Magnox Electric Group of the Electricity Supply Pension Scheme (MEG ESPS)**

The active employees of the Site Licence Companies (LLW Repository, Magnox) and NDA subsidiaries (Sellafield, International Nuclear Services) who participate in the defined benefit, final salary structure of the MEG ESPS. Approximately 1,800 scheme members as at 31 March 2016.

The Combined Nuclear Pension Plan (CNPP) and Magnox Electric Group of the Electricity Supply Pension Scheme (MEG ESPS) together provide pensions to approximately 10,860 employees employed across the NDA estate. Both schemes are now closed to new members, and the average time to retirement of those remaining in the schemes is approximately 15 years.

There are elements of the workforce that enjoy pension protections which were introduced at the time of the privatisation of the electricity sector and the formation of the NDA. These protections restrict the NDA's ability to make changes to its' pension scheme members' contributions and benefits. As a result, the NDA estate is out of step with the rest of the public sector where pension reform (involving a move to CARE based schemes for c 4m employees) has already been enacted.

Any implementation of CARE would be subject to modifications having to be made to the statutory protections which apply in respect of pension benefits to a number of employees in the estate.

If the Pensionable Pay Cap option was chosen following consultation, it would need to be implemented through collective agreement with trade unions and/or through individual agreement.

Both of the options for consideration under this consultation i.e. a CARE scheme and the introduction of a pensionable pay cap to the existing schemes would meet the cost savings which HM Treasury have identified to be delivered.

As the NDA estate receives more than £3bn of funding each year, the majority of which comes from the public purse and in line with our mission it's important that we deliver a cost effective service to the tax payer. The final salary pension schemes across the NDA estate are therefore within the scope of public sector pension reforms and these reforms need to be delivered by 1 April 2018 at the latest.



## Reasons for proposed changes

The increasing burden on taxpayers and concerns about the fairness and sustainability of public services pensions are among the reasons why the Government set up the Independent Public Service Pensions Commission (the Commission), chaired by Lord Hutton of Furness, to undertake an independent review of public service pensions and to make recommendations about how pensions can be made sustainable and affordable.

Government policy, led by HM Treasury, is to reform public sector pension schemes by implementing the recommendations from Lord Hutton's review conducted in 2011.

Four million public sector workers have already moved to new pension arrangements and any public sector pension schemes that have not yet been reformed are required to do so by April 2018.

Lord Hutton stated in his report that a CARE scheme is the fairest way of spreading the effect of change across the generations, and represents the quickest way of ending the in-built bias against those public service employees whose pay stays low over their career, inherent in final salary schemes. He went on to say that "maintaining the link to final salary for the purposes of calculating the value of a person's accrued rights under the existing schemes will, however, ensure fair treatment for those who have built up rights in these schemes and will mean that those closest to retirement, perhaps in their 50s today, who have less time to adjust are least affected and all existing scheme members retain the link to final salary for the years they have already accrued".

Further details regarding Lord Hutton's review can be downloaded at:

[http://webarchive.nationalarchives.gov.uk/20130129110402/http://cdn.hm-treasury.gov.uk/hutton\\_final\\_100311.pdf](http://webarchive.nationalarchives.gov.uk/20130129110402/http://cdn.hm-treasury.gov.uk/hutton_final_100311.pdf)

The NDA estate receives more than £3bn of funding each year, the majority of which comes from the public purse, and final salary pension schemes across the NDA estate are, therefore, within the scope of public sector pension reform. These schemes are to be reformed no later than 1 April 2018.

An alternative to CARE has been identified, by way of the application of a pensionable pay cap, and this will form part of the consultation process alongside CARE so that the views of affected members can be sought on both arrangements under consideration.

To date no Ministerial decision has been taken as to 'how' the NDA estate final salary pension schemes are to be reformed. This decision will only be made by the Government Minister responsible following the conclusion of the consultation period, and full consideration of the comments and feedback received.



## Consultation approach

The purpose of this employer consultation is to seek the views of active final salary scheme members on the two potential arrangements for pension reform.

For the avoidance of doubt, members are not being asked to vote on the proposed arrangements nor are they required to express a preference. They are, however, asked to make comments and to share their views during the consultation period on the proposals being considered.

There is potential for some flexibility around the exact design of both arrangements under consideration and it is expected that suggestions will be made during the consultation process – subject to achieving the target savings identified by Government.

The final decision regarding which approach may be implemented and its exact design will be determined by the Government departments involved.

The scheme design must

- Provide the savings accounted for as part of the estate's funding to 2020
- Provide savings across the lifetime of the scheme in line with those expected by HM Treasury
- Provide certainty of future liabilities
- Be sustainable for the future
- Be able to be implemented across the estate
- Be simple for members to understand
- Meet government's overall requirements in terms of public sector pension reform
- Reduce future benefit

Trade Union Members:

Please note that the options under consideration are being discussed with Trade Union representatives and these discussions will continue throughout the consultation period. To date there has been no agreement on these proposals.

Should these further discussions prove able to arrive at a position where the Trade Unions were able to recommend an option to their members, this would be followed by a ballot to ascertain members' views and it is the outcome of this ballot which will inform the TU decision on whether to reach agreement or not.



## Options for consideration

### Option 1 - Career Average Revalued Earnings (CARE)

A Career Average Revalued Earnings (CARE) scheme is a type of defined benefit pension scheme where the benefits at retirement are based upon a calculation of average earnings over an individual's career and length of membership of the scheme.

From the point at which it is implemented, members would build up a 'slice' of pension each year based on their salary in that year. Each slice of pension would be adjusted annually in line with national average earnings; this is known as the revaluation rate and ensures that accrued pension keeps pace with national average earnings.

The CARE scheme that is being proposed has the following key features:

- The pension accrual rate would be 1/60<sup>th</sup>;
- Members would be able to exchange pension for cash at retirement, up to a limit, at a rate of £12 of cash for every £1 of pension foregone;
- Members' contributions would increase, on average, by 3.2% of pensionable pay;
- Normal Pension Age for the CARE pension earned from 1 April 2018 would be 65 or the State Pension Age, if later. Normal Pension Age is the age from which a member draws their pension without any reduction;
- The pensionable pay in each individual year would be adjusted for inflation, in line with the Office for National Statistics measure of average earnings for each year up to retirement or date of leaving pensionable service;
- In the same way as members of the final salary arrangement, there are benefits payable on early retirement due to ill-health, or to surviving beneficiaries as a lump sum/pension following a member's death;
- Once in payment, pension benefits accrued before 1 April 2018 increase in line with Retail Price Index. This would change from 1 April 2018 where future benefits accrued after that date would increase (once in payment) in line with Consumer Price Index;
- Individuals who are within 10 years of retirement at the protection date set by Government of 31 March 2012 would retain their final salary benefits and there would be no change to Normal Pension Age for these members. These members would however be required to increase their contributions by, on average, 3.2% of pensionable pay and their pension benefits accrued after the implementation date of 1 April 2018 would increase in line with CPI.

***Final salary benefits built up prior to 1 April 2018 are unchanged and would continue to be linked to a member's final pensionable pay when they leave employment or pensionable service (if earlier).***





### **Option 2 - Pensionable Pay Cap**

The final salary pension schemes within the NDA estate will be reformed to include a **pensionable pay cap**.

In this option the structure of the current final salary schemes will be retained; the only difference would be that from 1 April 2017 the individual's pensionable pay will be set. After this date only 1% of any increase to a member's salary will be included as pensionable pay until 1<sup>st</sup> April 2020 when this cap would increase to 2.5%.

**A pensionable pay cap requires no other changes to the current final salary pension scheme therefore all other pension scheme terms would remain unchanged.**

Other key points to note:

- The proposed changes would take effect from 1 April 2017
- No changes would be made to any pension individuals have already build up prior to 1 April 2017
- There would be no change to the normal pension age
- Individuals' contributions to the scheme each month will not change as a result of this proposal
- Legislation is not needed to amend statutory protections for employees to enable this to be implemented.

**Whichever option is pursued, active members of the schemes in scope for reform (CNPP and Magnox Electric Group of the ESPS) would retain their accrued rights up to the relevant implementation date. (i.e. April 2018 for CARE and April 2017 for Pensionable Pay Cap).**



**How the proposed changes compare to the existing scheme:**

	<b>Current Scheme</b>	<b>CARE Scheme</b>	<b>Pensionable Pay Cap Scheme</b>
Benefit type	Final Salary	Career Average Revalued Earnings	Final Salary subject to Pensionable pay cap
Accrual rate	1/80ths	1/60ths	No change
Lump sum	3/80ths automatic lump sum, plus optional commutation	Optional commutation	No change
Member contributions	5.0% CNPP Scheme / 6.0% MEG ESPS Scheme (some members)	Average increase of 3.2%	No change – pensionable pay capped
Definition of pensionable pay	Permanent salary plus responsibility and certain other allowances	No change	Capped at 1 April 2017 1% of future increases added to pensionable pay until 31/3/2020 2.5% of future increases added thereafter
Normal pension age	60 – 65 (depending on your scheme rules)	65 or the State Pension Age if later	No change
Early retirement	Over age 55, actuarially reduced	No change	No change
In service revaluation	Final salary	National Average Earnings	No change
Revaluation in deferment	Retail Price Index	Consumer Price Index	No change
Pension Increases	Retail Price Index	Consumer Price Index	No change
Ill health provision	1 tier system	2 tiers of benefit subject to severity of ill health	No change

There are no proposed changes to other pension scheme benefits



## Detailed discussion of proposed changes

### Option 1 - Career Average Revalued Earnings (CARE)

#### A. Contribution rate increase

In line with contribution increases that have already taken place across other public sector pension reforms, it is proposed that member contributions to the scheme would increase by an average of 3.2% each month. This is illustrated in the 'Pension Consultation – an employee's guide' booklet pages 10-13.

**Question 1a** – What is your view on the proposed increase in member's contribution rate? Are there any alternative approaches you would recommend which would still generate comparable savings?

#### B. Transitional protection

Members who are within 10 years of retirement at the protection date set by Government of 31 March 2012 would retain their final salary benefits and there would be no change to Normal Pension Age for these members. They would, however, be required to increase their contributions as described in A) above, and their pension benefits accrued after the proposed implementation date of 1 April 2018 would increase in line with CPI (as opposed to RPI).

**Question 1b** – What is your view on the proposed approach to protection for those within 10 years of retirement? Are there any alternative approaches you would recommend which would still generate comparable savings?

**Question 1bb** – What is your view on the proposed protection date of 31 March 2012? Are there any alternative approaches you would recommend which would still generate comparable savings?

#### C. Implementation date of 1 April 2018

The final salary pension schemes across the NDA estate are within the scope of public sector pension reforms and these reforms need to be delivered by 1 April 2018 at the latest.

**Question 1c** – What is your view on the proposed implementation date of 1 April 2018? Are there any alternative approaches you would recommend that would still generate comparable savings?



#### **D. Statutory Protection**

The implementation of a CARE scheme would require modifications to be made to the statutory protections which apply in respect of pension benefits for a number of employees in the estate. These protections will not be removed and any modifications will simply enable the implementation of CARE - they will NOT provide for any other changes.

**Question 1d** – What is your view on the modification to statutory protections in relation to the implementation of a CARE scheme? Are there any alternative approaches you would recommend that would still generate comparable savings?



## **Option 2 - Pensionable pay cap scheme**

### **A. Staged pensionable pay cap approach**

As described previously, this option would involve a staged approach to a pensionable pay cap with the first stage (a cap on increases in pensionable pay of 1%) being effective from the date the scheme is implemented (1<sup>st</sup> April 2017) until the end of the Government's current spending review period (31<sup>st</sup> March 2020). The second stage would involve a cap of 2.5% being implemented from 1st April 2020.

**Question 2a** – What is your view regarding the staged approach being proposed? Are there any alternative approaches you would recommend that would still generate comparable savings?

**Question 2ab** – What is your view on the proposed timings of the staged pay caps? Are there any alternative approaches you would recommend that would still generate comparable savings?

### **B. Pensionable pay cap percentages**

Under this option the proposed pensionable pay cap percentages are:

- 1% of any increase to a member's salary will be included as pensionable pay from 1<sup>st</sup> April 2017 until 31<sup>st</sup> March 2020
- 2.5% of any increase to a member's salary will be included as pensionable pay from 1<sup>st</sup> April 2020

**Question 2b** – What is your view on the proposed percentage pay caps? Are there any alternative approaches you would recommend that would still generate comparable savings?

### **C. Definition of salary increases in scope**

Under this proposal any annual pay, pay progression and promotional pay increases would be included within the pensionable pay cap as detailed in A and B above.

**Question 2c** – What is your view on the definition of salary increased? Are there any alternatives you would recommend that would still generate comparable savings?



#### **D. Implementation date**

In order to meet the Government's savings target this approach would need to be implemented on 1<sup>st</sup> April 2017.

**Question 2d** – What is your view on the proposed implemented date? Are there any alternatives you would recommend that would still generate comparable savings?

#### **General points for review**

**Question 3a** – What is your view on the two options for consideration? Are there any alternatives you would recommend that would still generate comparable savings?

**Question 3b** – Are the proposed options clear, and, if they are not, what further guidance or support would be helpful?

**Question 3c**– Are there any alternative proposals that would meet the Government's savings criteria as detailed in the information provided?

**Question 3d**– Are there any additional changes not discussed in this document which should be considered?

**Question 3e** – Are there any additional issues e.g. relating to administration, equality or practical matters that need to be taken into consideration in implementing either of the proposals under consideration in this document?



## Summary of consultation feedback points

**Question 1a** – What is your view on the proposed increase in member’s contribution rate? Are there any alternative approaches you would recommend which would still generate comparable savings?

**Question 1b** – What is your view on the proposed approach to protection for those within 10 years of retirement? Are there any alternative approaches you would recommend which would still generate comparable savings?

**Question 1bb** – What is your view on the proposed protection date of 31 March 2012? Are there any alternative approaches you would recommend which would still generate comparable savings?

**Question 1c** – What is your view on the proposed implementation date of 1 April 2018? Are there any alternative approaches you would recommend that would still generate comparable savings?

**Question 1d** – What is your view on the modification to statutory protections in relation to the implementation of a CARE scheme? Are there any alternative approaches you would recommend that would still generate comparable savings?

**Question 2a** – What is your view regarding the staged approach being proposed? Are there any alternative approaches you would recommend that would still generate comparable savings?

**Question 2ab** – What is your view on the proposed timings of the staged pay caps? Are there any alternative approaches you would recommend that would still generate comparable savings?

**Question 2b** – What is your view on the proposed percentage pay caps? Are there any alternative approaches you would recommend that would still generate comparable savings?

**Question 2c** – What is your view on the definition of salary increased? Are there any alternatives you would recommend that would still generate comparable savings?

**Question 2d** – What is your view on the proposed implemented date? Are there any alternatives you would recommend that would still generate comparable savings?



**Question 3a** – What is your view on the two options for consideration? Are there any alternatives you would recommend that would still generate comparable savings?

**Question 3b** – Are the proposed options clear, and, if they are not, what further guidance or support would be helpful?

**Question 3c**– Are there any alternative proposals that would meet the Government’s savings criteria as detailed in the information provided?

**Question 3d**– Are there any additional changes not discussed in this document which should be considered?

**Question 3e** – Are there any additional issues e.g. relating to administration, equality or practical matters that need to be taken into consideration in implementing either of the proposals under consideration in this document?





## Consultation responses

Individuals are asked to give their responses to the questions above, and raise any additional comments or suggestions through their relevant trade union or management representative as detailed below.

Non Trade Union Members	HRD Contact Name	Email
Sellafield	Colin Reed	<a href="mailto:publicsectorpensionchanges@sellafieldsites.com">publicsectorpensionchanges@sellafieldsites.com</a>
Magnox	James Beckwith	<a href="mailto:magnox.consultation@magnoxsites.com">magnox.consultation@magnoxsites.com</a>
DRS	Charlotte Quinn	<a href="mailto:publicsectorreform.enquiries@drsl.co.uk">publicsectorreform.enquiries@drsl.co.uk</a>
DSRL	Graham Cameron	<a href="mailto:dounreay.consultation@dounreay.com">dounreay.consultation@dounreay.com</a>
LLWR	John Graham	<a href="mailto:john.p.graham@llwrsite.com">john.p.graham@llwrsite.com</a>
INS	Nicola Bacon	<a href="mailto:hr@innuserv.com">hr@innuserv.com</a>
Managers at:	Contact Name	Email
Sellafield	Colin Reed	<a href="mailto:publicsectorpensionchanges@sellafieldsites.com">publicsectorpensionchanges@sellafieldsites.com</a>
Magnox	James Beckwith	<a href="mailto:magnox.consultation@magnoxsites.com">magnox.consultation@magnoxsites.com</a>
DRS	Charlotte Quinn	<a href="mailto:publicsectorreform.enquiries@drsl.co.uk">publicsectorreform.enquiries@drsl.co.uk</a>
DSRL	Graham Cameron	<a href="mailto:dounreay.consultation@dounreay.com">dounreay.consultation@dounreay.com</a>
LLWR	John Graham	<a href="mailto:john.p.graham@llwrsite.com">john.p.graham@llwrsite.com</a>
INS	Nicola Bacon	<a href="mailto:hr@innuserv.com">hr@innuserv.com</a>
Trade Union Members	Contact Name	
Prospect	Dai Hudd or Gill Wood	
GMB	Justin Bowden	
Unite	Kevin Coyne	
ASLEF/TSSA	Colin Smith	



## Consultation timeline

Consultation begins	Monday 9 <sup>th</sup> January 2017
Consultation ends	Monday 10 <sup>th</sup> March 2017

During consultation there will be regular discussions with the National Trade Unions and named management representatives (as detailed on page 3) and any updated information or FAQs will be posted online at <http://tools.nda.gov.uk/pensionconsultation>. Affected members will be made aware when updates are available.

## Next Steps

At the end of the consultation period, the management representatives referred to earlier in this document will, on behalf of the employers, consider the feedback from employees and their representatives. They will then share this information with Government to aid them in their decision making.

Once we have confirmation from Government as to how they intend to proceed we will write to let you know the detail of any changes to be made to the Combined Nuclear Pension Plan (CNPP) and Magnox Electric Group of the Electricity Supply Pension Scheme (MEG ESPS).

**Please note** - a final decision will only be made by Government following the consultation period.