Department for
Business, Energy
& Industrial Strategy

THE NUCLEAR DECOMMISSIONING AUTHORITY

Pension Reform

May 2018

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The Nuclear Decommissioning Authority: Pension Reform

The consultation can be found on the BEIS section of GOV.UK:
https://www.gov.uk/government/consultations/nuclear-decommissioning-authority-pension-reform

Any enquiries regarding this publication should be sent to us at
ndapensionreform@beis.gov.uk

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General information

Purpose of this consultation

This consultation invites views from stakeholders on how Government proposes to enable the Nuclear Decommissioning Authority to implement pension reform of the Combined Nuclear Pension Plan (CNPP) and the SLC section of the Magnox Electric Group of the Electricity Supply Pension Scheme (MEG-ESPS).

Issued: 10 May 2018

Respond by: 5 July 2018

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Consultation reference: The Nuclear Decommissioning Authority: Pension Reform

Territorial extent:
This consultation relates to the exercise of powers in England and Wales.

How to respond

Your response will most useful if it is framed in direct response to the questions posed, though further comments and evidence are also welcome. When responding, please state whether you are responding as an individual or representing the views of an organisation. If you are responding on behalf of an organisation, please make it clear who the organisation represents and, where applicable, how you assembled the views of members.

When considering responses to this consultation, the Government will give greater weight to responses that are based on argument and evidence, rather than simple expressions of support or opposition.

Where possible, responses should be submitted electronically via the e-consultation available at Citizen Space: https://beisgovuk.citizenspace.com/civil-nuclear-resilience/nda-pension-reform.

Hard copy responses sent to the postal address above or emailed to ndapensionreform@beis.gov.uk will also be accepted.

Additional copies:

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Other versions of the document such as Braille or large print are available on request. Please contact us using the details under ‘enquiries’ above to request alternative versions.

Confidentiality and data protection

Information provided in response to this consultation, including personal information, may be subject to publication or disclosure in accordance with the access to information legislation (primarily the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004).

If you want information that you provide to be treated as confidential please say so clearly in writing when you send your response to the consultation. It would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded by us as a confidentiality request.

We will summarise all responses and place this summary on the GOV.UK website. This summary will include a list of names or organisations that responded but not people's personal names, addresses or other contact details.

Quality assurance

This consultation has been carried out in accordance with the Government's Consultation Principles.

If you have any complaints about the consultation process (as opposed to comments about the issues which are the subject of the consultation) please address them to:

Email: beis.bru@beis.gov.uk

Executive Summary

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.

Lord Hutton stated in his report that a Career Average Revalued Earnings (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".

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. This resulted in the Public Service Pensions Act 2013, which reformed the majority of pension schemes within the public service. Four million public sector workers have already moved to new pension arrangements and HM Treasury policy is for final salary pension schemes in the public sector to be reformed to a CARE based scheme, in line with the Public Service Pensions Act 2013. There are two final salary public sector schemes (with a total of approximately 10,160 scheme members) within the Nuclear Decommissioning Authority's (NDA) group that are therefore within scope for reform, with estimated savings currently expected to total in the region of £200 million.

Recognising the vital work that the NDA and its workforce delivers, the Department for Business, Energy and Industrial Strategy and the NDA worked with national trade unions in 2017 to develop an agreed pension scheme that was tailored to the characteristics of the affected NDA employees. This resulted in a proposed bespoke CARE scheme which is in line with the key principles of reforms already implemented in respect of other public sector pension schemes. The bespoke CARE scheme was formally accepted by trade unions following statutory consultation with affected NDA employees and a ballot of union members.

In order to implement the proposed new pension scheme, legislative change would be necessary, and it is these proposals for change that we are asking for your views on. Our proposed amendments would seek to:

i. Amend the relevant statutory pension protections to enable public service pension reforms to be implemented to the NDA schemes in scope, and in such a way that the reformed level of pension provision is preserved in the future;

ii. Provide the lead employers of the relevant pension schemes with an amendment power to allow implementation of public service pension reform irrespective of relevant trustee and member consent provisions in the scheme rules;

iii. Provide the lead employers with a power to make any ancillary changes required in order to ensure the scheme operates in the way which is envisaged; and

iv. Provide the lead employers, appropriate government minister or Government Actuary's Department with the power to adjust scheme member contribution rate thresholds to keep the yield balanced at 8.2% (whether this is required is yet to be confirmed).

The proposed changes would only be used to allow the necessary changes to be made to bring relevant NDA employees onto the new, bespoke pension scheme.

We welcome views from everyone on the proposed changes and their impacts, and would encourage stakeholders to respond to the consultation.

Consultation questions

Consultation Questions

1.	What are your views on amending statutory pension protections in respect of protected employees in the Combined Nuclear Pension Plan (CNPP) and the SLC section of the Magnox Electric Group of the Electricity Supply Pension Scheme (MEG-ESPS) for the purpose of enabling the implementation of pension reforms?
2.	What are your views on the proposal to provide the lead employers with an amendment power to ensure they are able to fully implement the CARE scheme agreed?
3.	What are your views on the options to maintain an average member contribution rate? Do you have a preferred approach? Are there any alternative approaches you would recommend?
4.	Do you agree on the need for the proposed power to allow the lead employers to make ancillary changes in order to ensure the scheme operates in the way which is envisaged? Any further views are welcome.
5.	In your view are there any unintended consequences or impacts of the proposed approach to amending legislation?
6.	In helping the government to meet its duty under the Equality Act 2010 to consider equality impacts of the proposed changes to the two NDA pension schemes, the government would welcome any evidence you could provide on the potential impacts of the proposed approach upon people or groups of people with protected characteristics.

7.	Do you have any further comments or are there any other relevant issues that the government needs to consider before making a decision?

Chapter 1: Introduction

1.1. The Independent Public Service Pensions Commission report[1] recognised the importance of making the current and future costs of public sector pensions fairer between scheme members and other taxpayers, and of putting them on an affordable and sustainable footing. The Public Service Pensions Act 2013 was introduced as a result of that review, and required specified pension schemes to be reformed in line with the review's recommendations. Principal elements of the reform include higher employee contributions and the replacement of final salary arrangements with Career Average Revalued Earnings (CARE) benefits. When taking forward this pension reform, the government's stated aims with regard to public service pensions were to:

- ensure a good level of retirement income for public service workers, with a reasonable degree of certainty
- be affordable and sustainable – with cost risk-managed and shared effectively
- provide a fair balance of cost and benefits between public service workers and other taxpayers
- protect those closest to retirement
- have a clear legal framework and governance structure – and be widely understood by workers
- stand the test of time – no more reform for at least 25 years[2]

1.2. The government published a command paper[3], impact assessment[4] and an equalities analysis[5] which outlined the rationale and impacts of the Public Service Pensions Act 2013.

1.3. HM Treasury policy is for final salary pension schemes in the public sector to be reformed to a CARE-based scheme, in line with the Public Service Pensions Act 2013. The Nuclear Decommissioning Authority (NDA) is a Non-Departmental Public Body responsible for decommissioning the UK's legacy nuclear sites safely, securely, cost effectively, in ways that minimise the impact on the environment and the burden on taxpayers. The NDA spends more than £3 billion each year, the majority of which is government funding and, in line with the NDA's mission, it is important that it can deliver a cost effective service to the taxpayer. There are two final salary public sector schemes (with a total of approximately 10,160 scheme members) within the NDA's group that are therefore within scope for reform further to HM Treasury policy to reduce public spending. These are the Combined Nuclear Pension Plan (CNPP) and the SLC section of the Magnox Electric Group of the Electricity Supply Pension Scheme (MEG-ESPS). Both final salary structures have been closed to new entrants since 2008.

1.4. During the privatisation of the electricity sector in England and Wales in the 1990s and the creation of the NDA in 2004, statutory protections were put in place to ensure that employees would continue to receive pension benefits 'no less favourable' or 'no

[1] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/207720/hutton_final_100311.pdf
[2] Public service pensions: good pensions that last, page 8 http://tiny.cc/y2raty
[3] Public service pensions: good pensions that last http://tiny.cc/y2raty
[4] http://www.parliament.uk/documents/impact-assessments/IA12-023.pdf
[5] http://www.parliament.uk/documents/impact-assessments/IA12-024.pdf

worse' than those they were receiving at that time, to protect against a possible change of employer or the winding up of a scheme because of a restructure of the business. As lead employers, the NDA (in respect of the CNPP) and Magnox Limited (in respect of the MEG-ESPS) (referred to throughout this document as "the lead employers") each have the ability, via rules of the relevant pension schemes, to amend some aspects of those schemes (subject to specific member consent requirements in the case of the MEG-ESPS). However, in order to enable them to implement the CARE scheme reform, the statutory protections put in place in respect of certain pension benefits under the Electricity Act 1989 and the Energy Act 2004 would need to be amended. In this document, the term 'protected employee' is used to describe those employees who are subject to, or otherwise eligible for, any such statutory protections in respect of pension benefits.

1.5. Recognising the vital work that the NDA and its workforce delivers, the Department for Business, Energy and Industrial Strategy and the NDA have worked with national trade unions to develop an agreed pension scheme that complies with the principle of reform to a CARE scheme but is tailored to the characteristics of the affected NDA employees. The NDA employers conducted a statutory consultation in 2017 with pension scheme members (in accordance with the Pensions Act 2004) to seek their views on three options for pension reform. This included a bespoke CARE-based scheme (referred to throughout this document as "the CARE scheme"), which was identified by the national trade unions as the best achievable through negotiation. The CARE scheme was formally accepted by trade unions following that consultation and a ballot of union members. Further information on the consultation process undertaken with scheme members can be found in Annex A. A summary of the three pension scheme option designs can be found in Annex B.

1.6. To enable the proposed reforms to be made, government intends to:

i. Amend the relevant statutory pension protections to enable public sector pension reforms to be implemented only in respect of the NDA pension schemes in scope, and in such a way that it preserves the reformed level of pension provision in the future;

> <u>Explanation</u>
>
> This means that the legal protections that apply to some employees' current pension entitlements would be amended to implement the features of the CARE scheme. The amended protections would ensure that affected employees would be legally entitled to a pension scheme 'no less favourable' or 'no worse' than the CARE scheme that was agreed between the NDA and the national trade unions.

ii. Provide the lead employers of the relevant pension schemes with an amendment power to allow implementation of the proposed public sector pension reform irrespective of relevant trustee and member consent provisions in the scheme rules, to the extent necessary to implement the proposed public sector pension reform;

Explanation

This means that the law would be changed to allow for the CARE scheme to be implemented, bypassing the existing rules for gaining agreement (whether from the Trustee or affected members) to these changes.

iii. Provide the lead employer with a power to make any ancillary changes required in order to ensure the scheme operates in the way which is envisaged; and

Explanation

Following the approval of the legislation and once the CARE scheme has been implemented using the single use power to do so, the NDA may identify possible unintended results that may make the scheme operate ineffectively. This power would allow changes to the CARE scheme in order to make sure that it operates correctly and as intended.

iv. Provide the lead employer, appropriate government minister or Government Actuary's Department with the power to adjust scheme member contribution rate thresholds to keep the average yield balanced at 8.2% (whether this is required is yet to be confirmed).

Explanation

The CARE scheme is designed to make sure that on average across the whole workforce employees contribute 8.2% of their wages to the scheme, but this is based on people in different salary bands contributing differently. Over time, employees are likely to move up through the salary bands due to promotion or economic factors, such as wage growth because of inflation, which would cause an increase in the average contribution rate above 8.2%.

Therefore the proposal is to allow for a responsible person or body (e.g. a government minister) to step in only if the contributions rise or fall to above or below an average of 8.2%. This would be done by adjusting the payments made by members in each pay band or adjusting the bands themselves.

1.7. The CARE scheme will be implemented in respect of future accruals only, so any benefits that have been earned that are linked to the final salary scheme up to the date of implementation of the CARE scheme will not be affected. Benefits accrued up to the date of implementation will continue to be linked to the member's final salary on retirement, rather than the salary immediately prior to the implementation of the CARE scheme.

1.8. This consultation sets out:

a) How government proposes to enable the NDA and Magnox Ltd to implement the CARE-based pension reform to the relevant sections of the CNPP and MEG-ESPS schemes, which would include:

i. Amending statutory protections;

ii. Establishing an employer amendment power;

   iii. Establishing a power to allow the lead employer to make ancillary changes to ensure the scheme operates in the way envisaged; and

   iv. Establishing a power to allow the lead employers, or other responsible person or body, to modify salary-banded contribution rates (to be confirmed).

b) How the amended statutory protections will ensure preservation of the reformed level of pension provision in the future.

Chapter 2: Amending statutory protections

2.1. In order to enable the NDA and Magnox Limited to implement the CARE scheme, existing law that protects the pension entitlements of the employees that have NDA pension scheme entitlements within scope for reform would need to be amended.

2.2. These laws are the Electricity (Protected Persons) (England and Wales) Pension Regulations 1990 ("Protected Persons Regulations") made under the Electricity Act 1989 and the Energy Act 2004 ("EA04").

2.3. The Protected Persons Regulations were put in place at the time of the privatisation of the electricity sector in England and Wales in the 1990s (separate regulations apply to Scotland)[6]. The aim of the protections was to ensure that qualifying persons were put in 'no worse' a position as a result of potential changes, such as a change of employer or the winding up of a scheme which might occur following a restructure of the electricity industry.

2.4. The EA04 protections were put in place for those employees who might, as a result of the formation of the NDA, be subject to a change of employer, and which was likely to result in a change of pension scheme.

2.5. This means that protections remain in place in respect of future involuntary transfers of employees out of the NDA. Therefore if an employee with protections is involuntarily transferred out of the NDA group, the new employer would be legally required to provide a pension scheme which is at least 'no worse' than those they were entitled to at the time the protections were put in place.

2.6. The purpose of both sets of protections was to ensure that relevant employees were entitled to accrue future benefits on a basis that is at least 'no less favourable' or 'no worse' generally than those they were entitled to accrue at the time the protections were put in place. The effect is that particular employees of the NDA are statutorily protected from adverse changes being made to their pension schemes, even where those changes have been agreed following a formal consultation under Sections 259-261 of the Pensions Act 2004.

2.7. The policy intent is to amend the statutory protections for the Combined Nuclear Pension Plan and the SLC section of the Magnox Electric Group of the Electricity Supply Pension Scheme only. There is no intent set by this proposed reform to amend any other statutory protections; only the two pension schemes outlined are in scope.

2.8. The government is therefore proposing to amend the relevant statutory pension protection provisions put in place in the EA04[7] and the Protected Persons Regulations

[6] There are five members of the British Energy Generation Group of the Electricity Supply Scheme who are based in Scotland and have statutory pension protections under the Electricity (Protected Persons) (Scotland) Pension Regulations 1990 made under the Electricity Act 1989. This pension scheme is out of scope for reform because the significant cost of reform has been deemed disproportionate to the savings that would be realised. Scheme members employed at the Dounreay and Chapelcross sites in Scotland are members of pension schemes within scope for reform.

[7] Section 46 of and Schedule 8 to the Energy Act 2004. Paragraph 9 of Part 4 of Schedule 8 to the Act. Paragraph 10 and 11 of Part 4 of Schedule 8 to the Act.

made under the Electricity Act 1989[8]. Statutory pension protections would need to be amended in respect of those people who are protected persons or those capable of being protected persons under the Protected Persons Regulations or the EA04 protections; and either

i. A member of a relevant NDA pension scheme[9]; or

ii. An employee of either the NDA or of a subsidiary that is a wholly owned company of the NDA; or

iii. An employee of a Site Licence Company (SLC) involved in the decommissioning of nuclear sites which is funded by the UK taxpayer via the NDA.

2.9. Amending the relevant statutory pension protections would enable the lead employers to introduce the CARE scheme reforms as outlined in Annex B. Other elements of scheme design and the process for implementation would be determined by the lead employers e.g. lump sum on retirement and ill heath, death and survivors' benefits.

2.10. The policy intent of the legislative changes is only to amend the necessary parts of the statutory protections referred to in this consultation in order to allow the NDA to implement pension reform as required. The broad intention is for the reformed level of pension protections to continue after the one-off changes have been made and to ensure that any further pension schemes that employees might be involuntarily transferred into are 'no less favourable' or 'no worse' than the bespoke CARE option to be put in place following legislative change.

2.11. This would mean that if a protected employee was subject to an involuntary transfer of employment in or out out of the NDA group in future, the new employer would be legally required to provide a pension scheme which is 'no less favourable' or 'no worse' than the CARE scheme.

2.12. The legislative changes would not enable any other employers to make changes in respect of the protected employees it employs (or has previously employed) who are outside the scope of the NDA pension reform. The statutory protections would continue to apply as they currently do in respect of such protected employees and would remain unchanged.

8 Schedules 14 and 15 to the Electricity Act 1989. The Electricity (Protected Persons) (England and Wales) Pension Regulations 1990 (SI 1990/346)

9 An NDA pension scheme is a pension scheme maintained by or on behalf of the NDA under or by virtue of section 8(1)(a) or (b) of the EA04.

Chapter 3: Employer amendment power

3.1. In addition to amending statutory pension protections, the lead employers of the pension schemes in scope would be provided with an employer amendment power. This power would allow for implementation of the CARE scheme that might otherwise be prevented by Trustee or member consent provisions within the rules of the relevant pension schemes.

3.2. The NDA has the power to amend most aspects of the Combined Nuclear Pension Plan (CNPP), subject to consultation with the Trustees. However, this power does not extend to the GPS Benefit Structure section of the CNPP, or changes to any other provision of the Trust Deed which grant a power, discretion or right to a GPS Member, for which changes require the consent of the Trustee. In order to implement the CARE scheme across the relevant parts of the CNPP, the NDA would need to make changes affecting the GPS section.

3.3. The Protected Persons Regulations which apply in respect of the SLC section of the Magnox Electric Group of the Electricity Supply Pension Scheme (MEG-ESPS) state that no amendment shall be made to the scheme that would result in the accrued or future pension rights of a “protected persons” (as defined by those Regulations) being reduced or their contributions increased, unless such a change has been approved by a resolution passed by a majority of not less than two-thirds of the protected persons who voted in respect of the proposed changes.

3.4. Therefore, under the rules as they currently stand, the NDA would have to secure Trustee consent and Magnox Ltd would have to seek a resolution of protected persons to implement the CARE scheme. The legislative amendment proposed would allow the lead employers to bypass these consent provisions to ensure timely and efficient implementation. To ensure the amendment was used solely to allow the employers to implement the agreed pension reform, the power would be limited for use only in relation to implementing pension reform as described under the CARE scheme in Annex B and only in respect of the pensions of the relevant group of people as described in paragraph 2.8.

Chapter 4: Power to make ancillary changes

4.1. The policy intent is to implement pension reform on a one off basis (as far as possible) to introduce the agreed CARE scheme in line with the recommendations of the Independent Public Service Pensions Commission report. However, changes may be required to address any unforeseen circumstances that are identified that affect the CARE scheme once it has been put into place. Amendments may be required to clarify any provision within the amended scheme rules or to reflect administrative practices which are adopted to implement the CARE scheme. Providing an appropriate amendment power for such purposes is intended to prevent the necessity for any further legislative reforms to the pension schemes.

4.2. The proposed power will be limited in scope to adjusting the CARE scheme and will not allow for implementation of a new scheme, or a gradual, incremental set of changes that shifts the CARE scheme from what it is intended to deliver.

Chapter 5: Power to modify salary-banded contribution rates

5.1. Government policy is to introduce an average of a 3.2% increase to employee contributions within the public sector and to provide protection for the lowest paid.

5.2. In order to tailor the scheme to the characteristics of the affected NDA employees and in light of the contribution rates already in place the NDA is proposing to increase the yield of member contributions to the pension funds by 3.05% to an average of 8.2% and to introduce salary bands so that contribution rates vary between lower and higher earners. This would be introduced in phases in broadly equal steps over the period from the point of implementation to 2021/22, based on the income tax thresholds for the tax year 2016/17 as follows:

2019/2020

£11,000 or less – no change (currently 5% / 6%)
£11,001 - £43,000 – 5.66%
£43,001 - £150,000 – 6%
More than £150,000 – 6%

2020/2021

£11,000 or less – no change (currently 5% / 6%)
£11,001 - £43,000 – 6.33%
£43,001 - £150,000 – 7%
More than £150,000 – 7%

2021/2022

£11,000 or less – no change (currently 5% / 6%)
£11,001 - £43,000 – 7%
£43,001 - £150,000 – 8%
More than £150,000 – 8%

2022/2023

£11,000 or less – no change (currently 5%/6%)
£11,001 - £43,000 – 7%
£43,001 - £150,000 – 9%
More than £150,000 – 11%

5.3. However, due to promotion or economic factors such as inflationary wage growth over time, active members are likely to move up through the salary-banded contribution rates. This would increase the yield to the pension funds above 8.2% meaning that the average member contribution rises by more than the 3.2% required.

5.4. There are several options to address this:

i. Provide a responsible person or body (for example the lead employer, an appropriate government minister or the Government Actuary’s Department) with the power to adjust member contribution rate thresholds to keep the yield balanced at 8.2%. This could be included in the employer amendment power (outlined in chapter 3 above);

ii. Member contribution bands could be linked to fixed metrics such as Consumer Price Index; or

iii. The statutory protections could be left in place, which will likely result in average contributions rising above 8.2% over time.

5.5. It is not the government's intention to accrue additional savings at the expense of scheme members by allowing the contribution yield to creep up to more than 8.2% over time. The NDA and national trade unions are currently discussing potential mechanisms to manage this issue.

Chapter 6: Impacts and Equalities Analysis

Background

6.1. A proportionate approach has been taken to considering the impacts associated with NDA pension reform. The NDA pension reform proposal is a variation of the standard CARE design reference scheme agreed with HM Treasury, and the impact assessment undertaken by government during the preparation of the Public Sector Pensions Bill in 2012[10] justified the principle and overall economic benefits of CARE reform in public service pensions. In addition, this policy affects only a targeted population within the public sector and so will not increase regulation on private business, nor will it increase regulation upon the population it is targeted at. The proposed change introduces no new regulation, instead modifying existing pension frameworks in order to allow for pension reform to be implemented. It does not engage the One In, Three Out rule.

6.2. Taking into account the unique circumstances faced by the NDA, the bespoke CARE scheme is in line with the key findings from the Public Service Pensions Bill impact assessment undertaken in 2012, which are:

i. CARE reform balances risk appropriately between the government and pension scheme members i.e. is affordable and sustainable, with cost risk managed and shared effectively;

ii. CARE is fairer for employees with different earnings trajectories. A final salary scheme design is far more beneficial to high earners than to those with lower salary growth and moving to a CARE scheme means those who benefited from existing distortions created by final salary schemes will cease to do so for future accruals. Those with slower salary progression will receive proportionately more, equalising the effective benefit rate received by all members; and

iii. CARE ensures a good level of retirement income with a reasonable degree of certainty.

6.3. In the context of wider public service pension reform and associated analysis already undertaken, no additional impacts have been identified unique to NDA pension reform which would justify a more detailed impact assessment to be carried out at this stage.

Economic and fiscal impacts

6.4. It is estimated that the economic and fiscal impacts of this policy will be positive by making the current and future costs of public service pensions fairer between scheme members and other taxpayers and put them on an affordable and sustainable footing. The NDA has estimated around £200 million of lifetime savings[11] which are set out in the Table 1 below and are not outweighed by any one-off or on-going administrative costs in implementing and administering the CARE scheme. These savings are in the form of transfers from reduced benefits of the pension scheme recipients to decreased costs for taxpayers.

[10] http://www.parliament.uk/documents/impact-assessments/IA12-023.pdf

[11] Undiscounted figure based on April 2018 price terms, 2013 funding valuation data and 2016 financial conditions.The lifetime savings look at the difference in cost up until age 60 for each member. For context, the youngest member in the 2013 data set will reach age 60 in 2053.

Table 1[11]: The estimated savings of moving to the CARE scheme from 1st April 2019

	2018	2019	2020	2021	2022	5 year total	Lifetime
Current scheme (£ million)	102	99	100	100	96	497	1,770
Bespoke CARE scheme (£ million)	-	88	85	86	81	435	1,560
Saving (£ million)	-	11	15	14	15	62	203

Note that the figures shown in the table above are not discounted

The savings accrued from the proposed reform would reduce by approximately £7 million per annum for each year of delay in implementation from April 2018.

Unquantified impacts

6.5. Changes to pension schemes could cause staff retention issues, possibly encouraging a limited number of current NDA group staff to consider leaving the workforce or retiring early. However, it is not anticipated that there would be a significant impact on staff or skills retention given there has not been an upturn in employees leaving following the workforce’s agreement to the bespoke CARE scheme design in May 2017. There is also the possibility of industrial action arising as a result of this change. However, given union agreement to the reform, and an ongoing and constructive dialogue with unions and staff, we expect the likelihood of this affecting the delivery of the NDA’s mission would be low.

Costs to NDA/employers of implementing changes

6.6. The costs to implement pension reform have been assessed against a previous exercise to merge NDA pension schemes in 2012. The NDA estimates external costs of £4 million[12] arising from technical, professional, and legal advice to NDA and affected employers, and during implementation, and on-going administration of any new arrangements (indirectly funded by the Exchequer).

[12] Estimated in 2012 using undiscounted spend to date (provided by NDA finance) and an estimate of projected future spend (undiscounted) (calculated by NDA pensions team and HR) based on activity to date and, in the case of Trustee implementation, prior experience in 2012.

Table 2[12]: estimated costs of implementing pension reform

Category	Legal / Actuarial	Interim Resource	Consultation / Comms	Trustee Implementation	Total
Spend to date	£1,265,000	£604,000	£41,000	£0	£1,910,000
Projected spend	£250,000	£200,000	£50,000	£1,500,000	£2,000,000
Total	£1,515,000	£604,000	£91,000	£1,500,000	£3,910,000

Note that the figures shown in the table above are not discounted

Additional Impacts

6.7. The key objective of the proposed change (which would require legislative intervention) is to enable the NDA to implement pension reform. The impacts beyond this are therefore limited:

i. The statutory protections would be amended in such a way that protections would be maintained in line with the CARE scheme. This would mean that protected employees would be legally entitled to a pension scheme 'no less favourable' or 'no worse' than the CARE scheme; including in the event of any subsequent transfer of employment out of the NDA (in circumstances covered by the statutory protections);

ii. The employer's amendment power would be used on a one off basis (as far as possible) to allow the lead employers to implement the required elements of pension reform in respect of the defined group of employees;

iii. The power to allow the lead employers to make any ancillary changes required wouild be limited to the scope of ensuring the CARE scheme is implemented as envisaged and has no unintended further impacts or consequences; and

iv. If a power for the lead employers, appropriate government minister or Government Actuary's Department is provided in respect of setting member contribution rates/salary bands, this would only be used to ensure member contribution rates are maintained at an average of 8.2%.

6.8. An assessment of the impacts will be further refined in line with data gathered from public consultation responses.

6.9. The NDA has carried out an equalities analysis on the proposed pension scheme reform. The evidence from this consultation will be used to further analyse any equality impacts of the proposed changes.

Annex A – NDA consultation

The NDA conducted an Employers' Consultation (in accordance with the obligations on employers under the Pensions Act 2004) between January and March 2017 in respect of the proposal to reform the existing Final Salary pension schemes in operation across its estate. The initial workforce consultation sought views on two options for reform:

> **Option 1:** A CARE scheme for public service pension schemes in line with a "reference scheme" with key principles (Annex B); or
>
> **Option 2:** A 1% cap on pensionable pay increases, which would limit an individual's final salary used to calculate retirement benefits. In principle such cap could have been introduced through terms and conditions of employment and was therefore a non-legislative proposal (i.e. no amendments to statutory pension protections).

Following discussions during the consultation period between the government, NDA and national trade unions, the following further option was agreed:

> **Option 3:** As Option 1, but with some revisions to the CARE design reference scheme (Annex B).

The initial consultation period was extended to enable members to consider the revised CARE proposal. This made clear that the government's options 1 and 2 were not supported by the workforce or national trade unions on the grounds that the impact on pension benefits would be too financially adverse and would undermine the confidence of the workforce to plan for retirement.

However, the bespoke CARE scheme (Option 3), which was acknowledged by national trade union officers as the best achievable through negotiation, was formally accepted by national trade unions and members following consultative ballots held by the main trade unions in May and June 2017. In response, government has worked towards the implementation of pension reform on the basis of the bespoke CARE scheme.

We are disclosing the main documents generated in connection with the NDA Employers' Consultation by way of further background to the Public Consultation now underway, to provide context for the purpose of the legislation being sought. The information and material disclosed covers the key elements of the Employers' Consultation and is made up of the following documents:

1) Formal Consultation document issued at the outset of the Consultation process in January 2017 (Annex C)
2) Revised CARE proposal issued in March 2017(Annex D)
3) Addendum to Formal Consultation document issued in March 2017(Annex E)
4) Response to Consultation document issued in June 2017(Annex F)

These documents confirm the approach to consultation which was taken, as well as the details of the revised CARE proposal which was the outcome of the consultation process.

Please note, the formal Consultation document and the Response to Consultation document both make reference to the two original options referred to above. However, there is no proposal to implement them in light of the acceptance of the revised CARE proposal and so the details of those benefit options are not considered relevant to this consultation.

Annex B – Pension scheme design for the three options

	Current Scheme	The CARE Scheme	CARE Reference Scheme
Benefit type	Final Salary	Career Average Revalued Earnings	Career Average Revalued Earnings
Accrual rate	1/80ths	1/58ths	1/60ths
Lump sum	3/80ths automatic lump sum, plus optional commutation	Optional commutation	Optional commutation
Member contributions	5.0% CNPP Scheme / 6.0% MEG ESPS Scheme (some members)	Average increase of 3.05% phased in over 3 years	Average increase of 3.2%
Definition of pensionable pay	Permanent salary plus responsibility and certain other allowances	No change	No change
Normal pension age	60 – 65 (depending on your scheme rules)	No Change	65 or the State Pension Age if later
Early retirement	Over age 55, actuarially reduced	No change	No change
In service revaluation	Final salary	Consumer Price Index	National Average Earnings
Revaluation in deferment	Retail Price Index	Consumer Price Index	Consumer Price Index
Pension Increases	Retail Price Index	Consumer Price Index	Consumer Price Index
Ill health provision	1 tier system	No change	2 tiers of benefit subject to severity of ill health
Lump sum on death in service	2 to 4 times (depending on your scheme rules) actual pensionable pay (depending on your scheme rules)	No change	Higher of (a) two times final pay; or (b) five times accrued pension

Spouse and partner pensions	CPS Benefit structure: Accrual rate of 1/140th (subject to increased pensionable service as if the member retired on ill-health grounds in the case of death in service) GPS Benefit structure: 50% of member's pension (based on pension which would have been paid if the member retired on ill-health grounds in the case of death in service) In Magnox ESPS, this is 54.33% of: (a) the pension in payment in the case of a pensioner; (b) the pension which would have been paid if the member had retired on grounds of ill-health in the case of death in service; or (c) the pension which would have been paid had it been put into payment at the time of the member's death, in the case of a deferred member.	37.5% of member's pension (subject to an enhancement by reference to a proportion of pensionable service to Normal Retirement Date if the member dies in service)	If death in service: 37.5% of enhanced pension[13] Death in deferment: 37.5% of deferred pension Death in retirement: 37.5% of the pension which would have been paid to the member
Indicate lifetime cost savings in comparison to the current scheme	-	15%	30%

[13] Enhanced pension in the case of a death in service in alpha is calculated as the member's pension multiplied by 10 (or if lower, the number of years until the member would have reached normal pension age), which is then divided by the number of years the individual was an active member of alpha. This amount is then added to the member's accrued pension. The dependant's pension is 37.5% of such enhanced pension.

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