

<b>Agenda item:</b>	<b>M7</b>
<b>Report title:</b>	<b>Pension Strategy</b>
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<b>Action:</b>	<b>To consider</b>

## Executive summary

This paper provides Council with an opportunity to consider the outcome of the engagement and consultation process relating to the proposed closure of the defined benefit scheme to future accrual.

The paper also summarises the latest financial position relating to the scheme's funding level, future accrual rate and proposals from Trustees regarding future funding.

## Recommendations

- a** To note the feedback from the Defined Benefits Scheme staff consultation and engagement process.
- b** To confirm Council's intention to close the Defined Benefit (DB) Pension Scheme to future accrual from 31 March 2018 and seek Scheme Trustee's agreement to amend the Trust Deed and Rules.
- c** To consider the Staff Forum proposal (whilst the Forum is the representative voice of all GMC employees this document only represents the collective views and opinions of those members of the Defined Benefits Scheme) to make additional employer contributions to existing DB staff when they join the DC scheme.
- d** To note the Scheme Trustee proposals for additional funding and agree to consider these in detail in February 2018.
- e** Note the plans to implement the adjustments to the DC scheme set out in our consultation materials.

## Background

- 1 In 2016, Council received an update on the significant changes to funding position of the defined benefit (DB) scheme and the costs of future benefits since the valuation date of 31 December 2015.
- 2 In response Council agreed to make additional payments of £0.5m per year into the scheme, maintain the existing contribution level (22.8%) and asked for a further review of pension strategy in 2017.
- 3 Council received reports at its April and June meetings this year and agreed that its preferred approach was to close the DB scheme to future accrual and move to an enhanced version of the existing DC scheme for all staff. In addition to addressing both costs and risks Council also sought to achieve a fairer approach to pension provision for all staff.

## Consultation and engagement

- 4 A statutory 60 day consultation period commenced in September 2017. Central to the consultation requirements is the explanation of the impact of the proposals on scheme members.
- 5 We ran 40 staff engagement sessions across the GMC (including online sessions for remote staff and homeworkers), offered 1 to 1 discussions with all DB scheme members and provided a personal illustration of the proposed changes for each scheme member.
- 6 An overview of the feedback is set out in [Annex A](#). This has been reviewed by two Staff Forum members to provide their colleagues with independent assurance that responses have been summarised and communicated to Council accurately.
- 7 In total we there were 54 individual contributions and three collective ones (all from Defined Benefits Scheme members), including a comprehensive response from the Staff forum (whilst the Forum is the representative voice of **all** GMC employees this document only represents the collective views and opinions of those members of the Defined Benefits Scheme), our collective consultation mechanism, which can be found at [Annex B](#).

## Consultation themes

- 8 Understandably, the reaction to the proposals by DB scheme members has been negative given the significant personal financial impact.
- 9 Council will recall that we identified three engagement themes:

- a** Increased Costs – as the cost of future benefits rose to 32% of payroll.
- b** Increased Risks – as the scheme grew and the potential range of future financial risks expanded in relation to the size of the employer.
- c** Fairness – as the respective costs of our two schemes diverged significantly, with half our staff receiving a benefit worth 12% of payroll and half on a CARE scheme costing 32% of payroll.

### *Costs and risks*

- 10** The main questions and comments on both costs and risks covered:
- a** The management of the scheme and how avoidable the 2016 changes in costs and risks might have been.
  - b** The need to make a change so quickly in response to the 2016 financial circumstances and whether waiting for a further period of time was viable.
  - c** Why an employer contribution rate of 22% was previously acceptable and reflected in the proposals for future benefits.

### *Fairness*

- 11** The plan to use this opportunity to move towards a standard GMC model for pension benefits has been the area where we have most negative feedback from DB scheme members. Points highlighted include:
- a** An argument that it was unfair to change contractual terms of long serving employees.
  - b** The absence of any proposals to provide additional support to DB staff who are close to retirement and have limited scope to adjust their plans.
  - c** The absence of any significant mitigation measures or compensation for staff leaving the DB scheme.

### *Other feedback themes*

- 12** A detailed summary of submissions made by staff are set out at [Annex A](#). These included points on:
- a** The significance of the financial impact on individual GMC staff members.
  - b** The negative impact on employee engagement and morale.

- c The risks to the employer of losing experienced and loyal staff.
  - d That the current pensions proposals could be subject to future reductions in value.
  - e The potentially divisive nature of proposals with a reduction in benefits for DB employees being used to enhance DC employees' benefits.
- 13 We have prioritised our engagement and support for staff in the DB scheme given the significant change in their pension benefits. This means that our engagement with DC members has been less extensive, but the feedback has been understandably positive at the seminar session we have run.

### **Funding position**

- 14 Since the proposals were finalised there has been some improvement in the scheme's funding position. The deficit has fallen from £18m to £12m and future service costs, if calculated now, would be 30% rather than 32% of salary.
- 15 While this is welcome news it is not a fundamental change to the cost and risk profile the employer faces as scheme sponsor and would not be the basis for any significant changes to the proposals.
- 16 The option Council chose as the basis for consultation remains the best fit for managing cost and risk pressures.

### **Consultation summary**

- 17 The proposed reforms to the scheme address significant cost and risk challenges for the employer. It is therefore not surprising that we have not received substantial alternative proposals that would enable a continuing DB scheme in any form or alternative approaches to fully address the cost and risk challenges.
- 18 Alongside this, while there have been some changes to the financial position of the scheme, there have not been any dramatic or unforeseen changes that would lead to a re-evaluation of our options. On this basis Council's preferred option, closure of the DB scheme to future accrual, is recommended.

### **Potential adjustments arising from the consultation**

- 19 The proposals we have consulted on generate some savings in our ongoing pension costs. This could be used to enhance the pension offer to DB members to reduce the impact of the proposals, or offer some form of compensation. The argument for harmonisation has been subject to significant debate during the engagement process.

- 20 Any enhancement of the offer to existing DB members would have a positive impact on morale and potentially our retention of long serving and experienced staff, but would run counter to achieving the fairer approach to pension provision Council has sought. We have received a specific proposal from the Staff Forum on this.

### Staff Forum proposal

- 21 The Staff Forum was briefed on the proposals and have produced a response ([Annex B](#)) and asked that Council consider this. This covers many of the points raised by individual scheme members and includes a proposed amendment to what is planned. Staff Forum representatives have asked that Council consider a higher DC contribution for those staff moving from DB of between 18 and 20%, using the cost reductions on employer contributions the proposals bring.
- 22 The Forum's proposal is very much in line with the individual submissions made by DB scheme members and reflects a major theme in the feedback we have had.
- 23 In considering this proposal or any other adjustments Council will wish to reflect on the costs, the impact on risk and the implications for us as an employer in terms of recruitment and retention. And the effect on Council's aim of achieving fairer arrangements.
- 24 The arguments against any further readjustment include:
- a Moving to a standardised approach to pensions which is administratively simple.
  - b Ensuing we reward all employees in a similar way.
  - c Our experience of the DC scheme is that as designed currently it contributes to a package that allows us to retain and recruit high quality staff.
  - d Our turnover remains low and stable, so while the risk of losing staff might increase this would be in the context of a very stable work-force.
  - e While we can expect there to be a negative impact on morale and engagement, we would be implementing these proposals as an employer that enjoys good levels of engagement and employee relations.
- 25 While it is clear that some adjustments to reflect the feedback would be well received there is a strong argument to use the savings that arise to lower the risks the employer faces as scheme sponsor. Here, the ambitions of the employer and scheme Trustees overlap, and it is also in the interests of staff with DB benefits for the funding position of the scheme to be as strong and secure as possible.

- 26 While the closure to future accrual is a significant step the Scheme will continue to grow as significant accrued benefits remain linked to salary and in some other limited circumstances (where ill-health or spouses pensions are enhanced in line with the scheme rules).
- 27 Given the risks and the existing deficit there is a strong case to prioritise reducing our main financial risk ahead of making any further adjustments to the proposals consulted on.
- 28 This position reflects our consultation themes which have emphasised that the closure to future accrual strengthens the employer's ability to support the scheme financially.

### **DC Scheme future design**

- 29 The consultation and engagement process also covered some detailed points on the future design of the DC scheme. These included:
  - a The introduction of ill-health benefits for existing DC scheme members.
  - b The enhancement of additional employee contributions by 10% (passing on the majority of the employer's saving on national insurance where such payments are made).
  - c The potential option of allowing some pension benefit to be exchanged for salary.

### *Ill-Health benefits*

- 30 Our proposals included the preservation of current DB ill-health and Death in Service benefits on a no detriment basis. As part of the harmonisation theme we have developed a proposal for comparable benefits for existing DC staff. These would provide a payment of 50% of an employee's salary and their standard pension contributions to state retirement age where they are too ill to continue in their role.
- 31 The insurance cost for this benefit for our existing DC staff is around £100,000 per year.
- 32 It is possible that this benefit may be a better option for some existing DB staff. Once we have finalised arrangements for this new benefit we provide a means to allow staff to make an informed decision as to whether to move to the new DC benefit or retain their current DB scheme option.

*Enhancing contributions*

- 33** Our feedback on this proposal has been positive. Our engagement with DB staff emphasises the tax benefits of pension savings as well as the impact of the proposals on retirement income.

*Flexibility*

- 34** Exchanging pension benefit for salary was of some interest to younger employees and staff with annual and lifetime allowance pension restrictions.
- 35** In light of this we believe it is sensible to build in this flexibility as we adjust our systems in advance of our planned implementation date with level of flexibility restricted to making a minimum pension contribution in line with auto-enrolment requirements, which rise to 8% in 2018.

**Scheme risk reduction**

- 36** Trustees of the Scheme have a particular duty to safeguard and then deliver the pension benefits promised by the employer. As the employer secures savings on its future pension costs and the scheme closes to future accrual Trustees would naturally want to discuss future funding requirements.
- 37** Here the employer and Trustees have shared ambition to reduce risk and ultimately move the scheme towards a 'self-sufficiency' basis. Essentially this aims to get the DB scheme to a position where it can reasonably expect to require no further employer contributions.
- 38** The closure of the scheme to future accrual makes it much easier to plan for achieving self-sufficiency. Trustees have set out proposals and are asking Council to consider making additional payments into the scheme of £2m per year.
- 39** Council's advisers have provided an initial view on the Trustee proposals and is supportive of further additional payments being considered ahead of the next valuation, but at a lower level (£1m) and for 2018 and 2019 with any further payments handled through the next triennial valuation, due to commence at the end of 2018.
- 40** Rather than attempt to analyse these proposals for additional funding here, we will provide Council with details of the future funding strategy and the potential benefits to the employer and the scheme at a Council seminar in the first quarter of 2018.

## M7 – Pension Strategy

## M7 – Annex A

### Consultation and Engagement Overview

- 1 As part of the consultation and engagement process staff were invited to make written comments or submission with regard to the proposals. During the process we received 57 sets of comments. Of these 54 came from individual scheme members, two on behalf of a group of colleagues, as well as the Staff Forum proposal.
- 2 The full bundle of submissions was made available to two members of the staff forum who are content that this annex is an accurate summary of the comments from scheme members. The comments by scheme members are wide ranging and cover many detailed points.

#### Overview

- 3 The comments are understandably negative, and this was expected given the significant impact on DB scheme members' pension benefits. As well as the financial loss, DB scheme members face the uncertainty that arises as the risk related to their pension investments passes to them.
- 4 Explaining the impact of the proposals was central to the consultation and we ensured that this was done in a direct and clear way. Throughout the seminar sessions, staff sought reassurance that their feedback would be relayed directly to Council.

#### Reform Rationale – Costs and Risks

- 5 The 2017 consultation process commenced in September following the move to a CARE based scheme in 1 January 2017. Consultation feedback questioned the need to make such a significant change in the light of changing financial circumstances over a relatively short period and asked about the scope to see if economic circumstances changed. It is clear that some DB members did not see the case for reform as convincing; did not agree that current arrangements were unsustainable or; accept the financial case for reform. This included a view that the CARE proposals should have run for a longer time period and that further reform in such a short space of time was unnecessarily hasty.

- 6 Some submissions took the view that Trustees request for additional funds (November 2016) was in effect a proposal to allow the scheme to remain open. There have also been some questions as to whether the financial position that emerged in 2016 was avoidable.
- 7 Feedback has also included comments on the financial strength of the GMC, reflected in the ability to reduce fees and the existing levels of reserves, and concerns that the proposals are primarily about making savings.
- 8 A particular theme has been around the move towards a 15% contribution level for all staff set against the current CARE contribution of 22.8% and why this latter figure was not the basis of a contribution rate for DB staff that moved to DC.

### **Individual impact of the proposals**

- 9 Individual pension illustrations provide each employee with a range of scenarios that illustrate the uncertainty associated with DC investments and the impact on retirement income. Two particular themes have been expressed in the written submissions. The first is around the scale of change in contractual terms and the second is around mitigation measures.
- 10 Submissions have also included specific points on the difficulties employees close to retirement face, in particular the limited time to make good the reduction in expected retirement income. This included concerns about the transfer of risk to individual employees and the uncertainty this created in terms of future benefits. We have also had feedback on the impact of the reduction in value of the pension benefit on part-time staff.
- 11 In terms of mitigation and transition a number of submissions make specific suggestions on additional measures that they would like to see considered. These included one off compensation payments, higher DC contributions, the GMC underwriting the investment risk in some way, more valuable match funding and additional consolidated increases in pay. This latter point was also linked to a view that current pension provision was integral to making a decision to join the GMC and accept a lower salary.
- 12 The Staff Forum proposal, to enhance the DC option offered to current DB staff, is closely aligned to the individual comments on this theme.

### **Fairness**

- 13 The arguments for a single harmonised pension benefit for all staff have probably been the most controversial theme within the consultation process. This has included concerns that the move to enhance the benefits of one group of staff alongside the proposed move to DC for all staff was divisive.

- 14 Feedback has also included questions as to why terms and conditions for one group of staff (agreed relatively recently) are being improved while longer serving staff see detrimental changes to contractual terms. This feedback includes comments on the impact on longer serving GMC employees and a view that changing contractual terms, which influenced as decision to join the organisation, is unfair.
- 15 Submissions also included the case for maintaining two levels of contribution given that this is already in place and that it is found in other organisations. This theme is articulated in some detail in the Staff forum proposal which reflects feedback which challenged the rationale for harmonising pension provision.

### **Other Comments**

- 16 A number of submissions expressed concern about the negative impact on staff morale and our ability to retain experienced and long-serving staff.
- 17 Seminar feedback and written submissions included requests for independent financial advice to support staff moving to a DC scheme.
- 18 Throughout the consultation process we have also had questions around the likelihood on any further changes and requests to provide some reassurance on this point.

### **Summary**

- 19 A reasonable summary of the main points from DB members would be that: the proposals are very unpopular and are seen as unfair; there are concerns that a decision to close to future accrual would be premature; and if they proceed there should be additional mitigation for current DB members.

## M7 – Pension Strategy

## M7 – Annex B

### GMC Pension Consultation 2017 - Staff Forum Response

#### Scope of response

- 1 The Staff Forum ('the Forum') in its role as an informed representative employee voice is submitting this formal response to the GMC pension consultation; and, request that this document, in its entirety, be provided to Council.
- 2 The content of this response has been derived from the various contacts that representatives have had with their constituents, including, but not limited to:
  - a individual discussions with constituents
  - b attendance at staff seminars
  - c attendance at team meetings
  - d ad hoc meetings with groups of constituents
  - e email correspondence, and questions, from constituents.
- 3 The Forum has sought to bring together core themes arising from the consultation and provide recommendations in line with the opinion expressed by the majority of constituents enrolled in the DB Scheme. This document does not aim to detail all opinions expressed.
- 4 Whilst the Forum is the representative voice of **all** GMC employees this document only represents the collective views and opinions of those members of the Defined Benefits Scheme (DB Scheme). This is on the basis that the consultation is only open to members of the DB Scheme. Any reference to 'staff' within this document should be read with this context.

- 5 Where comment, or proposal, may result in a disparity between, or detriment to, members of the existing Defined Contribution Scheme (DC Scheme) this is based upon the views expressed by those members being consulted.
- 6 For the avoidance of doubt, this document may not be representative of the personal opinions of members of the Forum.

### **GMC Consultation approach**

- 7 The Forum would like to formally commend the GMC, in particular Andrew Bratt and Christine Firth, for the manner in which they have approached the consultation on the proposed changes to pension provision for current DB scheme members.
- 8 The information provided during staff seminars has been clear and delivered in an honest, and necessarily direct, manner which has been greatly appreciated by staff.
- 9 It is appreciated further that the GMC has gone beyond that which is legally mandated of them, incurring additional expense to provide all current DB scheme members with a personalised illustration.
- 10 The Forum consider that the provision of these personalised illustrations has greatly assisted staff in understanding the potential, significant, impact these proposed changes may have upon their retirement and therefore has improved engagement with the consultation.
- 11 Whilst the Forum commend the GMC's overall approach to the consultation it was concerned that not all 2016 Council papers relating to pensions were automatically made available to staff at the outset of the consultation.
- 12 Whilst the Council papers from November and December 2016 were not fundamental to staff's understanding of the proposal the Forum considers that it would have better reflected our values of transparency if these papers had been made available at the outset. They were shared with the Forum on 23rd October and with staff on 17 November 2017.
- 13 As discussed in more detail at paragraphs 22-24, the Forum would have found it valuable to have had access to the November 2016 papers at the time it was published, to enable staff engagement prior to the formal consultation.

### **Benchmarking**

- 14 Staff have raised concern that the GMC does not appear to be consistent regarding the organisations against whom we are compared when making decisions regarding the benefits package offered to staff.

- 15 In relation to pay, and when showing pay restraint in recent years, the GMC has compared itself with the NHS who were experiencing a pay freeze and/or cap.
- 16 However, when considering pensions the GMC has compared itself with a select group of regulators such as OFCOM and the FCA who have closed their DB Schemes to future accrual. Staff are concerned that consideration does not appear to have been given to the fact that the previous pension changes, moving from final salary to CARE, already made the GMC's offering less beneficial to staff than the NHS.<sup>1</sup>
- 17 Staff also raise concern that whilst the DC Scheme is being described as 'one of the very best in the market' this neither takes into account the state of the market nor what other, comparable, organisations may be offering as part of their overall benefits package (company car/annual bonuses/free healthcare).
- 18 Staff note that the Council Papers in June 2017 acknowledge that whilst the offering will be in the upper quartile this is "in part, attributable to the fact that there is wide spread under-provision in the market."<sup>2</sup>
- 19 A 15% employer contribution DC Scheme pension will only be an attractive benefit if the organisation's pay levels and other benefits are competitive when compared with other similar organisations.
- 20 In view of the above, staff would welcome a consistent approach in benchmarking and for a holistic view to be taken regarding the overall benefits package offered to staff rather than each benefit being reviewed in isolation.

### GMC's Values

- 21 A sizeable proportion of staff have questioned whether the GMC's approach towards the proposed changes has been in keeping with the GMC's values of:
  - **Excellence** – we are committed to excellence in everything that we do.
  - **Fairness** – we treat everyone fairly.
  - **Transparency** – we are honest and strive to be open and transparent.
  - **Collaboration** – we are a listening and learning organisation.
- 22 In particular staff, and the Forum, would have wished to have been consulted earlier in the process; having the deficit explained to them and enabling a frank discussion with

<sup>1</sup> 'GMC Council – Pensions Seminar' – 13 December 2016, Page 11-12

<sup>2</sup> CS2 – Pension Strategy , Council Closed Session of 7 June 2017, Paragraph 5

regards to options to protect the DB scheme's long term financial stability. Staff consider that only engaging with staff once a firm proposal had been reached is not in keeping with the GMC's values of transparency, fairness and collaboration.

- 23** The Forum consider that earlier engagement may have provided Council with additional options; as, a significant proportion of staff would have been open to an increase in employee contributions; noting that both the NHS and teachers make contributions of approximately 10% (or higher).
- 24** The GMC's values have also been discussed in respect of transparency with regard to the publication of Council Papers (paragraph 12) and fairness with regard to the current proposal being consulted upon (paragraphs 24-28).

### Equality vs Fairness

- 25** The GMC has sought to advance that in addition to removing the financial risk to the organisation the pension changes are also being motivated by fairness towards all staff:

"Despite changes made to increase the contributions made by the GMC and the move to make this a Career Average scheme, the forecast liabilities of the scheme have still increased enormously. This has created a position where the effective costs of the DB scheme to the GMC are 32% of salary for members of the DB scheme, compared to employer contributions of 12% for members of the DC scheme (still one of the most generous DC schemes in the market). This raises obvious questions of cost as well as fairness for us.<sup>3</sup>"

"Fairness – under our 2015 proposals we would have seen our DB scheme costs around 22% of salary. Our DC contribution was 12%. Without any changes the difference between the two schemes would have risen to 20% of salary. This raised a fundamental question of how fair our approach to pensions might be.<sup>4</sup>"

- 26** Whilst the proposal results in all members of staff receiving equal employer contributions a considerable body of staff do not interpret this as being fair.
- 27** Treating everyone the same does not take into account the significant differences between the two cohorts of staff:

**a** Contracts:

<sup>3</sup> "Message to All Staff" - Email from Charlie Massey of 19 July 2017

<sup>4</sup> Staff Seminar Slide Pack (Pension Scheme Reform Proposals – Consultation Materials)

- i When DC members joined the organisation this was done in full knowledge of the benefits package on offer which included a DC Scheme with a 12% employer contribution.
- ii In contrast DB members joined the organisation, taking into account the entire benefits package, including the promise of a final salary pension which has since changed to a career average pension.
- iii To ignore the differing terms under which DC and DB members joined the GMC undermines the offers of employment made and degrades the trust between employee and employer; and, is unfair.

**b Remuneration for long serving staff:**

- i Members of the DB Scheme have experienced pay restraint over a significant number of years resulting in limited pay differential between staff who joined the organisation more than four years ago compared with those joining since the closure of the DB Scheme to new members.<sup>5</sup>
- ii In light of poor pay differential, staff consider that placing all employees on an identical DC Scheme fails to reflect length of service, experience and loyalty to the organisation and as such is unfair.
- iii Such a significant cut to the benefits package of long serving staff, without recognition or appreciation of their loyalty and commitment to the organisation, sends a message that staff are not valued.

**28** Whilst staff agree that a disparity of employer contributions of 20% of salary would be unfair, they would ask Council to consider whether placing all staff on the same Scheme does in fact represent fairness to all members of staff.<sup>6</sup>

**29** Staff also wish to note that in Spring 2016 Council implemented a change to the DB Scheme which maintained a disparity of employer contribution between DB and DC Scheme.

### **Defined Benefit Scheme – Financial health**

**30** In view of the information contained within the Council Papers of April and June 2017, staff accept that the financial health of the DB Scheme significantly changed during 2016 – moving from a £0.6M surplus to an £18.1M deficit. The Forum understands that this deficit has since reduced to approximately £16M.

<sup>5</sup> A Level 4 member of staff in Manchester who has been employed since 2012 remains within the Lower pay band and earns only 8.7% more than a new starter.

<sup>6</sup> Difference between the projected DB employer contributions of 32% and current DC contributions of 12%

- 31 Whilst accepting the change in the financial health of the DB Scheme the majority of staff question the appropriateness and validity of reviewing the scheme based upon changes to the assets and liabilities during such a short, volatile, period of time. Staff generally consider the commencement of a review of the pension provision in December 2016 as being premature.
- 32 This is supported by the Council Papers of November 2016 in which Lord Archibald Kirkwood, on behalf of the Trustees of the scheme, recommended to the GMC that by retaining employer contributions of 22.8% and making additional annual payments of between £500K and £1M, the deficit would be removed within 7-9 years.<sup>7</sup> It was noted that the position could be reconsidered as part of the next triennial valuation in December 2018.
- 33 Whilst Council accepted these recommendations, committing to maintaining employer contributions and making payments of £500K per annum, it is unclear the basis upon which Council chose to go beyond the recommendations of the Trustees and give consideration to the closure of the DB Scheme. Staff are concerned that they were not made aware of the Trustees' recommendation at the outset of the consultation.
- 34 Notwithstanding the above concerns, staff are mindful of the projections provided by Aon Hewitt, in particular the overall funding position over the next 10 years. Whilst the central scenario estimates a £22M surplus in 10 years' time<sup>8</sup> the 90% confidence interval ranges from £145M surplus to an £81M deficit.
- 35 Staff are mindful that due to the GMC having an annual budget of c.£100M a deficit anywhere approaching £80M would present extreme financial difficulties for the organisation.
- 36 Staff accept that by moving to a DC Scheme the organisation removes the financial risks associated with continuing the DB Scheme; and, welcome the fact that this should enable the GMC to maintain its revised pension offering over the long term.
- 37 As such, staff understand the rationale of closing the scheme.
- 38 Whilst some staff do want Council to reconsider the proposed closure of the DB Scheme, it is recognised that it is in no one's interests for the scheme to fail.

### **Allocation of funds**

- 39 It is noted within the Council Papers for the June 2017 meeting that the closure of the DB Scheme represents an annual cash saving to the GMC of approximately £2.7M.

<sup>7</sup> "Pension Scheme Triennial Valuation Update" – Annex B

<sup>8</sup> DB Pensions Strategic Review (AON Hewitt) dated 27 March 2017 - Page 4

40% of which will be used to improve the DC Scheme to a 15% employer contribution rate.

- 40 It is stated that the remaining 60%, £1.62M per annum, could provide a contingency to help reduce the deficit.
- 41 Staff are concerned that such a significant contingency could easily outstrip the deficit and ultimately result in a large financial gain for the GMC's accounts. This is of particular concern in view of the GMC's 2017 income and expenditure already showing a £10.3M<sup>9</sup> surplus.
- 42 Staff would therefore ask Council to consider whether the correct balance has been struck between 'recycling' the cash savings and contingency to help reduce the deficit.

### **Transitional arrangement**

- 43 The majority of staff do not consider that any transitional arrangements are appropriate or necessary.

### **Mitigating risk**

- 44 Staff have noted that the closure of the DB Scheme transfers the entirety of future risk to the employee; including, the risk that investments funds may decrease in size or fail entirely.
- 45 In view of the GMC's own proposals accepting that the DC Scheme is likely to provide insufficient pension provision for some staff Council may wish to give consideration to offering subsidised access to the services of an Independent Financial Adviser. Such services being proactively offered to any member of staff who seeks to reduce their employee contribution and/or sacrifice employer contribution for additional salary.
- 46 In providing these subsidies the GMC would be ensuring that staff have access to professional advice before making decisions which may be contrary to their long term economic prospects.

### **Staff Forum proposal**

- 47 In view of the above the Staff Forum, as the informed representative employee voice of the GMC, wish to advance the following proposals on behalf of DB Scheme members – based upon the majority view of those staff.
- 48 The Forum propose that in addition to embodying the GMC's values Council's ultimate decision on pension reform should adhere to a singular guiding principle that:

<sup>9</sup> "Chief Operating Officers Report" – September 2017, Annex B

*“The closure of the DB Scheme should be done in a manner that will have the smallest financial impact upon current members.”*

- 49 The Forum agree that it is appropriate to utilise some of the money gained by reducing the benefits of DB Scheme members to improve the employer contributions for existing DC Scheme members.
- 50 However, the Forum strongly encourages Council to maintain a two-tier system of employer contributions. The Forum recommends that those staff who are leaving the DB Scheme should receive a permanent uplift of their employer contributions to 18-20%. This proposal does not cost the organisation additional money, instead recycling a greater proportion of the cash savings to soften the impact on affected staff (approximately 50% of the organisation).
- 51 The Forum also note that DB Scheme members have never incurred a management fee for the running of their pension, this has been paid by the GMC. Transferring to the DC Scheme will incur a 0.4% management charge to operate the fund therefore further reducing the overall contribution rate.
- 52 The Forum consider that this is further justification for the permanent uplift of employer contributions for employees leaving the DB Scheme.
- 53 Whilst such a structure will retain a difference of pension provision between two cohorts of staff it will:
  - a Ensure that the GMC continues to recognise the loyalty and commitment DB Scheme members have shown to the organisation.
  - b Soften the significant impact the closure of the DB Scheme will have on the retirement planning of affected employees.
  - c Acknowledge the differing terms under which DB Scheme members entered into employment with the GMC.
- 54 Retaining a two-tier system will place the GMC within a sizeable minority of companies (23%) who maintain a difference in employer contributions over the long term.<sup>10</sup>

<sup>10</sup> DB Pensions Strategic Review – DC Design - 23 May 2017, Page 16 (AON Hewitt Benefit Design Survey 2014)

## Costings

- 55 On the basis that each percentile increase in employer contributions will recycle approximately £0.32M of the proposed cash savings<sup>11</sup>, our recommendation would reduce the GMC's net savings to between £0.64M and £0 per annum.
- 56 Whilst a reduction in the annual cash savings would provide less money which could be used to reduce the pension deficit the Forum note that these savings are annual in nature and therefore accumulate over time.

## Going Forward

- 57 The Forum would request that it is notified of Council's decision at the earliest opportunity to enable it to be best placed to engage with staff once the decision has been announced.
- 58 Additionally the Forum would ask that following the conclusion of this consultation Council gives consideration to carrying out a look back exercise covering the Change Programme and two pension consultations to identify good practice and areas for improvement. The Forum would be happy contribute to such an exercise.
- 59 The Forum considers that it would also be beneficial to consider whether staff, and the Forum, were involved at the earliest juncture and any steps the GMC could take to ensure that its actions, when considering employee benefits, are done in a holistic manner and demonstrative of the organisation's values.

<sup>11</sup> CS2 – Pension Strategy , Council Closed Session of 7 June 2017, Paragraph 19:

*“An increased employer DC contribution of around 5% for existing DB member for a period would consume the balance of the £2.7M in annual savings, once the enhanced DC scheme costs are taken into account.”*