UNISON

Response to Cadent Gas

Proposal to Close its Defined Benefit Pension Scheme

August 2023

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UNISON represents over 1.3 million people working across our public services throughout the UK in local government, the NHS, education, social care, housing, policing, transport, utilities, community, and environmental services. We represent approximately 20,000 members who work in the energy industry including within Cadent Gas.

In responding to this formal statutory consultation UNISON make the following points and recommendations.

It is very disappointing that Cadent have taken the decision to propose closure of its defined benefit pension scheme. In doing so Cadent are reneging on past promises repeatedly made to preserve the Defined Benefit (DB) scheme for existing members. This represents a betrayal of these past commitments and will inevitably damage trust between existing scheme members and the business.

UNISON does not believe that the case for closure to future accrual has been made. In fact, it is quite the opposite. The more the justification has been explored the less the justification exists which leaves the business lacking the credibility to take this course of action. While we fully understand the challenges of maintaining a defined benefit scheme and recognise that the employer contribution rate of c60% is not in itself sustainable over the long, we believe that scheme modifications remain possible to bring these costs down. This was demonstrated by us during the pension review period and simply ignored. Further to that it is impossible to ignore that Cadent is a highly profitable business which pays out massive dividend payments to its owners, far more than what might be considered normal. To therefore suggest that the DB scheme is not affordable is plainly untrue.

Cadent Gas give three clear reasons why they propose closing the DB pension scheme.

1. **Cost Pressures** – Cadent say that operating costs are higher than those in their business plan in part linked to high inflation.
2. **Sustainability** – Cadent believe the scheme is too expensive to continue to maintain going forward.
3. **Equitability** – Cadent say that the vast majority of employees are not in the DB scheme and instead are in the money purchase DC scheme. This makes for unequal provision.

In response UNISON would make the following comments.

1. **Cost Pressures** – Cadent is one of the most profitable regulated companies in the UK and last year these profits amounted to some £950 million of which some £350 million was handed back to Macquarie and its investors in dividend payments. This is in addition to the other monies it makes as owners. These returns as a regulated monopoly provider are excessive and easily made and should be challenged. However, despite the high level of profits they are clearly not enough for Macquarie and so closing what is left of the DB scheme provides even greater returns in the short term. In the years since its ownership, hundreds of millions of pounds in dividends has been extracted and sent abroad while more and more capital

investment in the Gas network is funded by borrowing which is costing consumers. The level of profits generated, and the dividend payments made, are by any measure excessive and represent the worst of corporate greed. It is not acceptable that ordinary workers for Cadent who have been repeatedly assured that their pension was safe should be the ones who are required to make sacrifices to maintain these excessive profits and payments of huge of money overseas.
It must also be pointed out that the actual cash cost of providing future accrual in the Cadent DB scheme is already reducing due to scheme members retiring as it is a mature legacy population. In time the scheme cost will be negligible. With increases to gilt yields and the tapering of life expectancy, the overall position of the DB scheme is healthy and its liabilities well managed.
Further the regulator continues to support provision of DB schemes through its TOTEX allowances which included the ongoing commitment given by Cadent in its submission to fund future accrual.

2. **Sustainability** – UNISON has accepted already that ensuring the DB scheme is sustainable is essential and has proposed ways in which the day-to-day employer costs of the scheme could be reduced significantly. We have engaged with Cadent in a professional way to find solutions, the same cannot be said for Cadent who have simply reiterated its desire to close the scheme regardless of what scheme members may wish to do. As mentioned above, the scheme is presently in surplus from a scheme liability perspective and its costs are reducing significantly every year. The scheme members are mostly a mature group of employees all who have been employed prior to 2004 when the scheme closed finally to new entrants. A new reformed DB scheme is possible within the cost parameters suggested, and we have shown Cadent how that could be done but, this was never about sustainability or cost but about getting the scheme liabilities off the Cadent books.
Mitigations for potentially reducing future service benefits and hence cost to eliminate the sustainability challenge would ordinarily include measures such as:

    - Reducing rates of accrual
    - Changing the calculations for final salary or average salary
    - Introducing a pensionable salary cap
    - Changing the rates of indexation
    - Increasing the member contribution rate
    - Committing to a cost sharing mechanism to mitigate future increase.
    - Providing future service benefits on a Career Average Revalued Earnings basis
    - Increasing the Normal Pension Age
    - Reducing the value of ancillary benefits

   These measures have proven effective in delivering reform proposals elsewhere and they can sustain schemes with the consent of members. The list is also not exclusive and other mitigations may be possible. It is often the case that sustainability includes several mitigations which when combined make the required savings.

3. **Equitability** – When the present DB scheme was closed to new entrants it was a decision instigated and taken by the employer. In doing so they committed to

maintain the future accrual of the DB scheme members currently employed at that point in time. That number has of course substantially reduced. Subsequently when National Grid sold the Gas Distribution business, commitments were secured that those in the DB scheme would be protected. These commitments were willingly given and at a time when the DB scheme was more costly and not in surplus. These promises are now being broken and without sufficient justification or business crisis that might have been a more rational position. It is clear, that day to day funding of DB schemes requires greater company resources than new pension provision in the form of DC (money purchase) schemes. This is not new (it is after all a reason they were closed to new entrants back in 2004) and existed at the time when the above commitments were given to the DB scheme members. Further to this point, we have suggested that if Cadent are so concerned about the differences in their contributions to the two different workforce pension schemes, they may want to further improve the DC provision rather than reducing the DB provision as proposed, they could certainly afford too with the vast profits the business makes. And we have already suggested ways to close the gap between company contributions between schemes with proposal for DB pension reform.

Lastly, Cadent have not given any assurances that in the future they will not actually reduce further the existing DC provision if further savings are needed to pay dividends it is probable that they will in time do this. Evidence of this approach can be found in the disgraceful treatment of the ex tupe staff who have a far worse DC provision and no commitments have yet been made to redress this. This does not speak well of Cadent's pension commitments to its employees going forward and could be resolved.

Compensatory/Transitional arrangements

While UNISON is firmly of the opinion that retaining the option of a DB scheme is essential and justifiable, we also recognise that the business proposal is to end future accrual and so we have also engaged in discussion about transitional measures should our request for the continuation of a DB provision be rejected.

In our collective experience we know that most employers engaged in pension reforms will seek to cushion the blow by introducing incentives or transitional arrangements. These vary according to circumstances but few employers contemplating major regressive change are in such a strong financial position as Cadent Gas is.

The proposals as outlined in the consultation by Cadent Gas, simply do not go far enough in helping to recognise and adequately compensate DB members for the significant deterioration in their expected pension outcomes on retirement if your current proposals are implemented. This is clear from the extensive feedback we are receiving from members.

UNISON would request following transitional measures be adopted.

1. **Redundancy Protections going forward in line with those afforded by the DB scheme- i.e. early unreduced access to the pension in the advent of redundancy.**

Why? Because being a member of the DB scheme give early access to your pension in the event the company seeks to make you redundant increasing your personal vulnerability.

2. **Retention (for present DB members) of what constitutes pensionable pay, so for example, those in the DB scheme they retain their shift allowance (or London allowance) as pensionable pay in any subsequent transfer into a DC scheme. Why? Because the loss is even greater for this group of workers if they are not able to count shift allowances (or London allowances) as pensionable which under DC rules they cannot, while under DB rules they could. This is often an additional 26%, so a considerable sum and a double whammy for this group of workers which is totally unacceptable.**
3. **Delay the ending of future accrual into the DB scheme by 6 months to allow for annual pay increase 2022/23 to take full effect for those impacted. Why? This would mean for pensionable pay purposes the full year increase would apply to pre 2013 service and further it would give another 6 months forward accrual.**
4. **Changes to rules that prohibit those receiving a DB pension from continuing to work for Cadent with a break in service. Why? Because this will allow more workers to take up options of flexible retirement and ensure they can mitigate any loss from these pension changes.**
5. **A financial package of mitigation that is at least equivalent too or superior to those that were offered to affected workers in Northern Gas Networks when its DB scheme was closed. Why? Cadent will be making significant cash savings over a short- and long-term period. Although cash payments do not compensate DB scheme members from the level of losses incurred, they do soften the blow and allow and more accelerated build-up of savings in the DC pension alternative.**
6. **That a scheme is put in place to give independent financial advice to affected individuals. Why? so they can reassess their retirement plans post any changes to ensure they have adequate plans in place. The cost for this to be borne by the business.**
7. **Improvement to the DC Pension Scheme. Why? In our discussions with Cadent Gas we have raised a general concern that the DC Pension scheme is not going to provide an adequate pension for many of its workers in retirement and is vulnerable to market movements. We have asked the business to increase its contributions so that it recycles any savings made by DB scheme closure. In EDF for example, when the DB scheme was closed to future accrual the company increased the double match to 7.5/15%. This would lead to a 22.5% pensionable build up per annum.**
8. **An agreement that Cadent Gas will not reduce the level of its DC pension contributions for a minimum of 10 years. Why? We are concerned that detrimental changes are likely to follow in the DC scheme once the DB scheme close has taken place. The business has so far refused to rule out any future negative changes to the DC scheme taking place, simply stating that this consultation is not about the DC scheme. We believe a dangerous precedent has already been set by Cadent when it refused to allow workers who had Tupe'd into Cadent to join the Cadent DC scheme. Instead, it has kept them on an inferior cheap DC scheme despite repeated request by UNISON to address this. UNISON is concerned that this**

continued action is simply a portent of things to come, and it is the true intention of the company based on recent behaviours.
Providing a good DC scheme does not carry the same risks as a DB scheme and costs are controlled so it is easily possible for Cadent to take this step forward. A further point is that since NG/Cadent closed the DB scheme to new entrants and swapped them to the DC scheme at the current rates available, it has saved itself millions of pounds and will continue to save significant amounts of money. This is money that ultimately has been taken away from workers retirement income and has provided better returns to investors.
There are also good economic reasons to do so namely that it will enable better recruitment and retention of workers in a challenging labour market. The gas industry will need to do much more to recruit the numbers of workers needed to meet decarbonisation plans, and good pension benefits are an aid to getting the right people into the business and retaining them in a competitive labour market.

Concluding comments

Cadent Gas has failed to outline a reasonable justification for its proposals to close the DB scheme for future accrual. It is doing so, despite past commitments made to protect this benefit for active scheme members. This is a deeply regrettable action by Cadent which undoubtedly will have negative consequences into the future for both the business and the impacted individuals.

UNISON's members greatly value their current DB pension scheme and have always recognised fully that the cost of providing their current benefits must be sustainable. That is why as a trade union we have been willing to explore a reformed DB scheme alternative which could be put to members to vote on. Members would have hugely appreciated Cadent taking the time to fully explore with UNISON all good quality alternative DB options as without doubt the current proposals to take this away, represents a very severe deterioration in pension provision and if implemented is likely to lead to a huge loss of good faith and morale for all affected. This will in turn lead to more key people leaving the business that are hard to replace, in turn creating a risk to the business's operational capability. This point should not be underestimated by Cadent, not should the internal and external reputational damage that will be caused by Cadent's actions in this regard.

The currently proposed transitionary arrangements package significantly underestimates not just the financial loss, but also the broader concerns about the direction of travel Cadent is engaged in. A loss of confidence in the business by key segments of its workforce is a sign of a wider structural problem within the business that should not be ignored. We have made clear in our response just how Cadent should improve the transitionary arrangements if it chooses to go down the route that it has proposed. All the measures flagged by UNISON are achievable and would benefit the business in the longer term. While all the suggested transitional arrangements that UNISON are asking for should be implemented, we would point to the protection of allowances in calculating pensionable pay, a substantially improved financial mitigation, delaying implementation by a further 6 months and protecting redundancy benefits as priorities.

We further intend to pursue improvements to the DC scheme as part of the broader joint union approach to our pay claim for 2024. This we believe will engage the whole of the Cadent workforce to improve pension provision and to demand a better long-term reward from Cadent for the part they play in driving the significant profits that it achieves.

We will await your formal response and hope that the business recognises the points we are making and accepts them as a means, to moving forward in a more consensual manner.

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