BBC Pension proposals – discussion paper

Three key facts underpin the debate over the BBC's plan to make significant changes to its pension arrangements. Information gathered from the most recent valuation of pension fund assets in 2005, the history of BBC and staff contributions to the fund over the last 20 years, and data given to the unions at various consultative meetings since 2003, indicate that:

a) There is no funding crisis in the BBC pension scheme (unlike many other blue-chip pension funds). The scheme was fully-funded at the last valuation in April 2005 on an actuarial basis, and on the government's Minimum Funding Requirement formula was in fact well-enough funded to meet 137% of its liabilities to date.

b) Had it not been for an extended pensions "holiday" during which the BBC (and staff to a lesser extent) contributed less than the scheme needed to meet the cost of benefits accrued during the period, the BBC scheme would currently be showing a very healthy surplus.

c) If the BBC is willing to contribute more than 17% of payroll into the scheme (which is what it says will happen from April next year), and is prepared to maintain that level of contribution long-term, it could, according to the actuaries, allow the retirement age to remain at 60, and keep the pension scheme open to new staff.

Given that there is no black hole in the BBC pension scheme (except for the predicted £150m shortfall in April 2007 incurred by spending two years on "holiday" longer than we should have) the BBC's proposals are driven by two motives:

1) **Reduction of cost** - the change of retirement age coupled with the introduction of a new career average scheme will eventually reduce the total contribution required from 24.8% of the wage bill (including staff contributions) to something around 15-16%. That's a significant saving, but the price paid will be less generous retirement terms for all new staff, and all current staff below 50. The overall cost of the career average scheme is likely to be a total of 12% of paybill, excluding the increased national insurance bill (incurred because members will be contracted in to the second state pension unlike current staff who are contracted out). This is half the cost of the current pension scheme.

2) **Reduction of risk** - the design of the proposed career average pension scheme will allow the BBC, on a yearly basis, to calibrate the accrued benefits of staff who join it, insulating the BBC from fluctuations in earnings growth, inflation, and, to some extent, investment returns. The corporation wins more control over costs, but members of the new scheme will retire later, with lower pensions than the current scheme offers, and face punitive penalties if they retire early (expected to be a 5% per year reduction).

None of the above translates easily into banner headlines, and many details have been lost, or misunderstood, in the media coverage the story has received. However the facts are there, and are on our side.

In responding to the BBC we could dismiss any suggestion of a pensions "crisis", and demand that, now the pension holiday is over, the BBC should simply pick up where it left off in 1992. That would mean paying in the same proportion of the on-going cost that they were doing then (which would be roughly the same amount they plan to contribute from next April anyway) and leaving the benefits, and entitlement of new staff to join, unchanged for the time-being.

Prior to a series of contribution cuts that began in 1990, the BBC was contributing 17% and staff 6.5%, giving a combined funding rate of 23.5%. If staff contributions are taken to the current maximum of 7.5'% next April, the BBC's contribution, in order to reach the combined 24.8% recommended by the actuaries, will be 17.3%, fractionally more than their rate in 1990.

This contribution rate is sufficient to keep the pension scheme going, open to all new staff, without any change in retirement age, according to the 2005 actuarial valuation.. Admittedly the planned valuation in April 2007, one year ahead of schedule, may change this, but unless investments take another nose dive, or inflation goes through the roof, it is fair to predict that next year's valuation will not result in a recommended accrual rate for future benefits dramatically above the 2005 valuation.

In fact, unless the BBC's "scheme-specific" mortality data – tables listing the actual longevity of retired staff which are used by actuaries to calculate the scheme's liabilities – indicate a significant increase in life-expectancy, the 2007 valuation could produce an on-going funding figure that is even lower than the 24.8% determined in 2005. Any reduction in 2007, if it occurred, would be generated by the long-term reduction of scheme liabilities due to the increase in pension age to 65 (for existing final salary members who are under 60 years in 2016), and the effect of new staff joining a career average, rather than final salary, pension scheme.

By way of comparison, the underlying funding rate calculated by actuaries in the 2002 valuation was 25.1%, marginally *higher* than the more recent valuation. If the proposed changes to the pension scheme are implemented, the 2007 valuation (leaving aside the £150m deficit predicted in earned benefit) is likely to mark the beginning of a gradual but sustained reduction in the pension fund's accrual rate.

The £150m predicted pension deficit in 2007 results from a delay between the end of the BBC's pension "holiday" in 2005 (when full payments should have resumed), and April 2007, when the BBC eventually intends to raise its pension contributions. It is now due to be paid back by the BBC to its pension fund within 8 years.

Informally, it is known that the accrual rate for New Benefits members is below 20%, and the 24.8% recommended rate which aggregates New and Old Benefit members illustrates how good, and therefore expensive, the old benefits are - the accrual rate for that group is believed to be in excess of 30%.

However it is a diminishing group of active members, currently 40% of those in the final salary scheme, and the BBC can realistically look forward to a position in the medium term, where the vast majority of members are on New Benefits, with a accrual rate which will be reduced by the increase in retirement age to 65. Alongside them in the scheme will be the career average members, whose combined contribution rate is currently planned to be only 12%.

Given an historic staff turnover of 5-6%, and the opportunity of new staff to enter only the career average part of the scheme, the BBC can expect a significant reduction over the medium-to-long term in the combined contribution to the pension scheme. Informally, the BBC is being advised that an accrual rate of 15-16% is likely. At some point in the (distant) future, when almost everyone remaining in BBC employment is in the career-average scheme, the combined contribution rate will reduce further, eventually reaching the 12% cost projected at the moment (all other things being equal of course).

In other words, the pension scheme changes not only reduce financial risk, but will eventually reduce the BBC's contributions to the pension scheme to a level well below that which prevailed before the pensions holiday began.

Of course, a strategy of insisting that the Corporation should “pay up and make up no changes” may entail a degree of future risk that the BBC is unwilling to countenance, but in actuarial terms is affordable at present. A bit of thinking time until the next valuation in April 2007 would, in itself, be a small price for the BBC to pay for the enormous savings achieved during the pensions holiday.

Whatever our collective response to the broad proposal, we need to remember that there is a consultation running among staff, and give advice on the options they should show a preference for. For example, the question of whether New Benefits members will be able to take their PA60 pension at age 60 after 2016, and continue working at the BBC is still open – one of several issues that staff are being asked to comment on.

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