16 April 2018

Rt Hon Frank Field MP
Chair
Work and Pensions Select Committee
House of Commons
London
SW1A 0AA

Dear Mr Field,

Re: United Utilities Pension Changes

We noticed your letter of 28 March 2018 to Rachel Fletcher, Chief Executive of Ofwat, published on the Work and Pension Select Committee’s website. I am aware that Rachel Fletcher has responded to your letter, however, I wanted also to respond directly regarding the changes to the United Utilities Defined Benefit (DB) pension scheme.

As a result of extensive discussions with trade union and employee representatives, we agreed not to close the DB scheme to future accruals and, instead, introduce a hybrid arrangement. This continues to provide around 1,800 of our employees with a DB arrangement supplemented by a Defined Contribution (DC) element.

Your letter mentions that the pension scheme is in surplus on an IAS19 accounting basis. Although this is not on a basis used to determine the cash contributions to the scheme, it does reflect prudent management and our proactive approach in governance. For instance, the steps taken by the company and the pension scheme trustees over the last decade have allowed us to ensure it is well positioned to meet past service obligations, safeguarding the interests of all members.

By way of background, United Utilities closed its DB scheme to new entrants in 2006. Since then, more than 60% of our employees have enrolled onto our DC scheme. The DC scheme is benchmarked as upper quartile against FTSE100 companies (Deloitte survey 2016/17) and has held the Pension Quality Mark Plus since 2011.

We have worked hard to retain the DB scheme’s benefits for those who opted to remain in it. However, the cost has grown to around 40% of members’ salaries. This is unsustainable at a time when we are striving to keep increases in customer bills to below inflation over the decade to 2020.
We talked to Trade Union (TU) and employee representatives for many months to explore changes to the DB scheme, and began a formal consultation process in April 2017. The outcome of the discussions was a hybrid pension scheme that reflected the recommendations of trade union and employee representatives. Since then we have supported DB members through this transition by funding individual appointments with a pension expert to discuss their retirement plans.

The change was adopted by the fund’s trustees last summer, and legally implemented on 1 April 2018.

All DB members will retain accrued benefits up to 1 April 2018. Employees have the option of moving to the new hybrid scheme if they wish to continue to add to their DB pension, or move to the DC scheme if they prefer a larger lump sum at retirement. Alongside these arrangements, DC terms have been enhanced to all employees and these new arrangements will cost United Utilities significantly more than closing the DB scheme.

Please do not hesitate to let me know if you would like to discuss this or any other issue. I would be pleased to meet with you in your constituency office or at Westminster.

Yours sincerely,

[Signature]

Steve Mogford
Chief Executive