Dear Frank,

Thank you for your letter setting out your concerns about the Plumbing and Mechanical Services (UK) Industry Pension Scheme. The issues around this scheme are very complex.

You have raised concerns that the trustees have decided to wind-up the scheme and this will trigger Section 75 employer debts for the remaining participating employers. I understand that the trustees are not winding up this particular scheme but are in the process of closing the scheme to future accrual from 30 June 2019, subject to certain conditions being met and legal changes being made.

Closing the scheme to future accrual is different to a winding up event in that it does not trigger an employer debt, but it does help prevent new liabilities being built up after the closure date. If the trustees decide to proceed with the closure they will remain responsible for managing the scheme’s assets so that all members receive the benefits they have already built up. The remaining employers will also continue to have certain obligations to the scheme, with regards to funding, providing information and a liability for employer debt, should they cease to participate in the scheme.

I have met with a number of employers and their representatives from this particular scheme and I am aware of the difficulties they may face if they have an obligation to pay an employer debt. The Government’s Green and subsequent White Paper on Defined Benefit pension schemes looked very closely at this issue and, looking at the proposals and evidence presented, considered very carefully what could be done to relieve the pressure on employers no longer participating in this scheme, while maintaining appropriate protection for the members relying on the scheme for their retirement income.

My officials also met with representatives from the scheme, the Scottish and Northern Ireland Plumbing Employers’ Federation, employers, pension
members and the Pension and Lifetime Savings Association’s Multi-Employer Scheme group to discuss this issue in detail.

This extensive engagement helped build our understanding of the practical implications of employer debt requirements from the perspective of all those impacted by it and exploring potential changes.

After examining all the available evidence, we concluded that the current method of calculating a Section 75 Employer Debt is the most secure and effective way of protecting members and remaining employers in a multi-employer scheme. The White Paper concluded that the existing arrangements in legislation, along with the deferred debt arrangement introduced last April, provide enough flexibility for employers to manage their employer debts. It also explained that we do not think that excluding orphan liabilities from an employer debt calculation would necessarily solve affordability issues some employers may face.

Your letter also raises the issue of family-owned businesses who have no limited liability protection whose employer debts put them at risk of personal bankruptcy. The Flexible Apportionment Arrangement (FAA), which is already available in legislation, can help employers undertake a corporate restructuring and become incorporated without triggering an employer debt. Although FAAs do not permit incorporation in all circumstances they have been used successfully by employers in this scheme. The Plumbing Pension Trustee already has a streamlined FAA process in place to help small employers wishing to incorporate.

Since 2005 when this area of legislation was strengthened, the trustees of the plumber’s scheme have been unable to calculate or recover debts, nor has it been able to provide any estimates on the level of potential debts until recently. I understand that this work has now been completed and my officials are working with employer representatives, the Pension Protection Fund and the Pensions Regulator to ensure the existing arrangements that are in legislation for managing an employer debt are used as effectively as possible.

This is a very difficult case where there are no easy solutions. It’s important that any attempts to help employers is balanced against the need to ensure that the thousands of members who rely on this scheme are protected. Neither should we ignore similar schemes whose sponsors have also had to make some very difficult decisions in similar circumstances but have nonetheless complied with their requirements under the current legislation.

Yours ever, Guy Opperman

Guy Opperman MP
Minister for Pensions and Financial Inclusion