

AXA Defined Benefit Scheme Review

The case for closure of the DB scheme is not accepted and the Forum invites AXA to consider alternative proposals as will allow DB scheme provision to continue.

If DB provision is ended for the future service of existing employees AXA will be in a minority both in terms of its own industry and amongst large employers in general.

Why closure is not justified

The Company's argument has focused on its wish not to take on any more risk in respect of allowing further accrual of DB benefits to take place.

While cessation of further accrual achieves this, the impact of cessation on the overall funding position of the Scheme is limited. The Forum does not accept that it has a sufficient impact to justify the adverse effects it will have on the benefits promised to a key group of AXA employees.

The risk involved in further accrual is limited because of

- the steady fall in the numbers of DB members due to ageing and natural wastage
- the adoption of more prudent funding assumptions to cost future accrual has made any deficiency in respect of these future benefits much less likely – in reality it is more likely that future accrual would improve the overall funding position rather than worsen it
- the prospective addition to the total liabilities the Scheme already has is limited relative to the size of pre-existing liabilities – over 10 years the addition could be as little as 5%
- given pensionable salary growth is already capped the impact on the deficit of closure breaking the link to future salary growth is very limited

The Forum does accept that the DB pension scheme poses a major challenge for the Company. However, the closure proposal appears to be only of token or symbolic importance in terms of addressing that challenge.

The impact of the closure in terms of the reduction in cost of future benefits is very limited, on Company figures only around £3.7 million in the first year which is about 4% of pensionable pay.

Were it not for the Company having agreed to a more prudent funding basis for future service accrual even this saving would not have been apparent. It could be argued that that 'saving' is not so much a reduction in company cost as a reduction in what in all probability could have been an excess contribution reducing the deficit resulting from over-funding for future accrual.

The DB members have committed to careers with AXA partly because of the value placed on the DB pension scheme. Withdrawal of this benefit will cause many to reassess their commitment to the Company and whether they will stay with it, especially if they are not convinced that the Company has made an adequate case for change.

Staff have in the past accepted that some change in the basis of the pension scheme is warranted to cope with funding problems and the Scheme has evolved. They may accept some further evolution and will certainly expect alternatives to closure to be fully evaluated and considered.

Alternative measures to explore in consultation

The Forum has considered a number of alternatives which might, individually or in some combination materially reduce the risk and cost associated with allowing a DB Scheme to continue.

Contracting-in with reduced Scheme accrual

This measure shifts a part of the risk of providing future pension away from the Scheme/Company and on to the Government. A change on these lines anticipates and deals with an issue as might result from the proposed reform of the state pension and the end of contracting-out.

The options of contracting-in with a reduced standard accrual rate of (a) 1/70, and (b) 1/80 should be considered

Retirement Age for Future Service accrual

Clearly rising life expectancy is a key issue for the Scheme

The option of all members future benefits being payable in full only (a) at the age of 65, and (b) at state pension age should be considered.

This would not affect past service benefits or the age at which members are able to retire.

A capped CARE Scheme

Instead of the current salary cap being introduced it would have been preferable for a CARE scheme to be implemented such that all pay remained pensionable and the cap only applied to the revaluation of pension once it had accrued.

We would now propose that CARE be reconsidered but in the context of a capped CARE scheme providing a DB core benefit for all members with DC benefits being applicable to benefits above a salary ceiling

The option of a switch to a CARE pension for the future service pension on all of a member's salary up to an indexed ceiling level set initially at £40,000 p.a with DC provision applying to any salary in excess of ceiling should be considered.

Other measures

Although not involving any structural change in the scheme consideration would need to be given to member contributions and the level of indexation of pensions in payment in devising a revised benefit structure.

An end to contracting-out would result in increased NI contributions and this would need to be factored in to any consideration of the future contribution level.

Changing the basis of indexation in payment of future pension accrual from RPI to CPI could also be considered as a possibility

A single set of DB terms for all future accrual

Implementing some of these options might be simplified and some further cost saving achieved if a single set of DB terms was considered for all current DB members.

This might also allow savings in administration expenses running into the future

Taking this forward

The Forum expects all these alternatives to be fully considered and costed with full disclosure of the assumptions used to evaluate them.

In relation to any costings the notion that costings ought to be made on a risk-free basis is rejected as being unrealistic and inappropriate. If that was a reasonable basis on which future pensions were evaluated then it would bring into question the value of saving for retirement through pension schemes of any sort.

At this stage the Forum is not committed to any of the alternatives being put forward but equally it is not ruling any of them out as a basis of achieving the continuation of DB provision which we believe AXA's DB scheme members want to see left open to them.