


unite the UNION

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AXA DB Pension Scheme Change

Discussions between AXA and Unite in respect of proposed changes to the AXA defined benefit pension schemes have concluded. These negotiations have been difficult with no easy solutions available. The outcome is that a cap will be introduced limiting future increases to pensionable salary for scheme members to the increase in the Retail Price Index from 1 July 2009.

AXA's position was that in the current economic recession the business faces it's most severe cost challenge to date and must exploit all opportunities to save money. At the same time a number of factors (in particular the global fall in stock market values) have resulted in a significant worsening in the funding deficit of the defined benefit pension scheme, thus increasing in the contributions that AXA are required to pay into the scheme.

The starting point for the negotiations was that AXA were not prepared to fully meet the increased costs of the defined benefits scheme that would emerge following the triennial actuarial valuation due in March 2009. Unite were absolutely clear from the beginning that everything must be done to avoid closure of the defined benefits scheme.

A defined benefit scheme calculates pension as a fraction of pensionable salary, for example as 60ths of the salary earned for the final year of a member's service. It became clear that AXA wanted to reduce the cost of the scheme by reducing the definition of pensionable salary.

After meeting with Nicolas Moreau to discuss the financial state of the UK business and taking expert advice on the range of possible options, Unite's preferred resolution was for the scheme to move to a career average salary (CARE) basis. This would have maintained the link between final salary and pension benefits, whilst also reducing the "risk" to AXA and providing a closer link between contributions paid and benefits accrued. AXA rejected this option claiming that moving to a CARE basis did not save enough money, still had some risk of future salary inflation and would be more difficult to administer.

AXA wanted to introduce an annual RPI cap for increases to pensionable salary as this would save more money than moving to a CARE basis and would be simpler to administer. Aside from our preference for a CARE scheme as a fairer solution, Unite were not prepared to accept an annual RPI cap due to the potential unfairness of pensionable salary being permanently capped each year.

A simplified example is that if a member received no pay rise in a year when RPI was 3%, followed by a 3% pay rise in a year when RPI was 0% their pensionable salary would not increase at all over the two years.

After extended negotiations a compromise was reached to introduce the RPI cap on a cumulative basis. This means that actual salary increases from 1 July 2009 will be capped for pensionable salary by the increase of RPI over the whole future period. To take the above example, the increase in pensionable salary over the two years would now be 3% rather than 0%, as the total salary increase of 3% over two years would be compared to the total RPI increase of 3% over that period.

Any periods of deflation (where RPI is less than 0%) will be treated as though RPI had been 0%. This means that the RPI cap will not result in any reductions in pensionable salary.

Members of the defined benefit scheme that have pay rises post 1 July 2009 that are greater than the cumulative rate of RPI will find their pensionable salary on which their retirement benefits are based is lower than their actual salary. Members that have overall pay rises post 1 July 2009 that are no more than the cumulative rate of RPI should not be impacted by this change.

Member contributions will be based on pensionable salary rather than actual salary. There will be no RPI cap for lump sum death in service benefits, so actual salary will be used to calculate this.

Unite have secured a commitment from AXA that the RPI cap will be reviewed in 3 years time, although we are disappointed that AXA has taken the position now that pensionable salary can only increase in a year when a member receives an increase in their actual salary and we will pursue this. Although this practice may only impact a minority of members, there are circumstances where in some years individuals could find their pensionable salary capped below the full rate of cumulative RPI increases.

Unite realise that many members will not be happy with these changes. However the immediate future of the scheme has been secured and this is the best result that can be achieved through negotiation and certainly an improvement on AXA's proposals.