

First Bus head of pensions, Muntazir Hadadi

A new route to retirement

Paige Perrin sits down with First Bus head of pensions, Muntazir Hadadi, to discuss the company's decision to separate its DC scheme from its legacy DB scheme, the barriers to this process and the possibility of moving to an alternative pension arrangement in the future

First Bus has separated its DC scheme from its legacy DB scheme. What were the main reasons behind this decision, and why did you choose to set up your own trust rather than move to a master trust?

The main reason was that we wanted to give the DC the focus and attention it deserved, because previously it sat within our legacy DB scheme, which meant it received limited time at trustee meetings. We wanted to change that and recognise that DC was the future for our workforce.

We did consider a master trust, but we decided to set up our own trust because we wanted a couple of significant benefits, which were member engagement and control. In terms of the engagement benefits, we've got specific company values and culture, and we wanted to give our colleagues a sense of ownership of the scheme. Even the fact that it has First Bus in the name [First Bus Retirement Savings Plan] really matters.

In terms of our values, we want employees to have a voice within the company and, particularly within the pension scheme, we wanted members at the core. The way we've done that is our trustee board is made up of 50 per cent member-nominated trustees (MNTs). There are four MNTs and four employer-nominated trustees. Those MNTs are frontline workers who are also trade union colleagues, and it is a mix of bus drivers and engineers. Beyond that, we have a co-chair model for our trustee board, and one is member-nominated, and one is employer-nominated.

Can you tell us more about the process of setting up the new scheme and transferring the members and assets? What did this involve in practice?

Even though we kept the same assets and scheme provider, we set up a new scheme. This was more than we initially anticipated because it wasn't just moving into an existing arrangement – we started from scratch. We created a new legal entity. We also had to consult with staff and say that although nothing is really changing, the name is changing and we are going to get these new benefits from having our own trust as well. There was quite a lot of work that went into making sure it was managed properly, that colleagues understood what was changing and why it was changing. We are quite fortunate to have strong member communications because of support from trade unions and the trustees. That's particularly important given the size and geographical spread of the workforce.

The company also had control over the design of the scheme, including governance, rules, member communications, and investment options. By having that control, we make sure members' interests remain front and centre, whereas I don't think you necessarily would get that type of control if you joined a master trust.

What were the biggest challenges you faced during the process, and how did you overcome them?

The biggest challenge was communication. A lot of colleagues were asking us why we were changing the name of the scheme. Our workforce is spread from Aberdeen to Penzance, and a huge challenge is that many of our colleagues don't have a work email address, so we can't just rely on sending an email and assuming the message has landed.

We needed to find ways to reach colleagues in the environment that they operate in, and one of the things that we did was get out on site. We visited 50 out of our 70 depots to explain the change. The support of the trade union was key here because we could use the trade union communications infrastructure as well, and they could send messages on their channels to help us communicate the change. The impact of having the trade union colleagues on board is important because they're not pensions professionals but can explain things in language that their colleagues can understand. In larger schemes, I think it is difficult for that member voice to be heard, and that is key for me in our scheme that our members have a voice.

How has the new scheme changed the way First Bus approaches pension governance, value for money and member outcomes?

Having our own trust has allowed us to design our governance arrangements and rules specifically around our DC membership. Those rules were designed to be flexible and simple, rather than just procedural. We cut out a lot of the red tape and the administrative burden that we used to have, and that's helped us free up time.

For example, bus franchising is changing the bus industry, and the local mayors have more control of bus services, which means more and shorter contracts. Staff move between the operators more frequently, and because of historic rates that we must maintain, you start to see lots of sections being created in pension schemes. Having flexible rules means that we can easily bring those into our scheme and that reduces the admin burden as well.

For us, we're looking beyond just the costs. Charges are clearly important, but that kind of effectiveness of governance really helps.

How will First Bus decide whether to remain with its own trust or consider other options, such as a master trust or a collective defined contribution (CDC) scheme, as the pensions landscape evolves?

One of the real benefits of having our own trust is that we haven't rushed ourselves into a long-term decision about which model will be right for us. It's given us time to really think about what we want and allow the pension landscape to settle because there's been so much change. Not rushing into anything has been quite helpful and allowed us to explore what our options are.

We can continue as we are, albeit with cost and governance pressures that are significant, which is something we do need to think about. We think it's still enough of a benefit for us to run our own scheme at the moment, but we could explore going to a master trust. We could explore bringing DC and DB back together, in the context of using any potential DB surplus to help pay for future DC contributions. And then you mentioned CDC as well; that's also an option we are exploring. Nothing is off the table, and having our own scheme has allowed us to do that. Had we gone down a different route, it might have been harder to unwind that if we made a different decision.

What advice would you give to other organisations considering a similar change?

My advice would be not to underestimate the value of member engagement. It genuinely helps our workforce and helps our trustee board reflect our workforce as well. We hear directly from those trustees who are speaking to their colleagues, and this allows members' voices to be represented at trustee board meetings. We hear about the small niggles before they become formal complaints or are escalated to the board. We're demonstrating that a small well-run scheme can deliver something meaningful, even though the trend is towards these much larger schemes now.

Also, the value of having control and ownership of your scheme allows you to be more flexible and make changes. There could be things that come down the line that you've not prepared for, that you wouldn't even think of now, but having control and ownership will allow you to be more flexible and make those changes.

How do you see the scheme developing in the future?

As I said, we're keeping our options open, but we are listening to what members want and the challenges they have. In the past 18 months, we've spoken one-on-one to over 1,000 people at the depots, and we are hearing their concerns and issues. Financial well-being is becoming a much bigger part of our strategy because we've been told members are struggling, including some who can't even afford to go into the pension scheme.

A benefit that we have over some other schemes is that we're taking the time to understand why people cannot join our scheme or why they've opted out. We're embarking on creating a financial education training programme for our staff, including understanding pensions and payslips and understanding how to get into a savings mindset.



Written by Paige Perrin