

## Sad News

As this newsletter was being prepared we heard the sad news of the death of Tony Allen Secretary of the ESPS. Tony was a good friend of the Association. We have conveyed our sympathies to his family and colleagues.

---

## Association AGM

This year's AGM will be held at the headquarters offices of Prospect New Prospect House 8 Leake Street London SE1 7NN.

The Prospect Headquarters is adjacent to Waterloo Station and is easily approached from York Road.

The date of the meeting is Wednesday 24 September commencing at 14:30.

---

## In this Issue

- Pensions – a rollercoaster year
- ESPS Members to get annuities
- ESPS – Group Statistics March 2007
- The ESPS AGM
- Whither 3.9%
- Updated objectives for the Association
- OPA Expresses concern about pensioner representation
- Pension Credit

Don't forget that our Web site [www.aesp.org.uk](http://www.aesp.org.uk)

## **Pensions – a rollercoaster year**

Another year passes and it is necessary to re-assess the present and future situation of the pensions industry at large and our own ESPS. We started the year with the FTSE 100 very high and the real possibility that deficits would be significantly reduced. However the year continued to see big swings in the markets. Nationally, according to the Pensions Protection Fund's data, there was a £67.8bn deficit at March 2008 in defined benefit schemes as against a surplus of £23.6bn in March 2007. To illustrate the volatility of pension scheme valuations, and their relative meaninglessness in terms of long term investment, the aggregate funding position (total assets minus total liabilities) of almost 7,800 DB funds monitored by the PPF was estimated to have improved to a surplus of £30.3 billion at end of April 2008.

We shall have to wait until later in the year to learn how the ESPS fared over this period. Indeed we are still waiting for the formal results of the March 2007 triennial valuation of many of the Groups although they must, by law, be published by the end of June. We will hope to have an analysis of these data later in the year.

Looking back to pre-1990 days, we saw full employment with active trades unions – some may say too active – with a thriving a pensions industry and the prospect for every employee to earn a living wage with the comfort of a pension in later years – usually at the age of 65 or less. Employers also valued their staff as an asset at the heart of their businesses and willingly made contributions to their pension funds.

What has changed over the last 18 years? Certainly the influence of trades unions has diminished so their previous power to demand/seek worker benefits has reduced. We now have a large surplus of cheap labour people in the market – many, and an increasing number, from the continent of Europe. There has been a pensions “crisis” with some employers going to the wall for economic reasons and others using dubious legal means to avoid or close down their pension schemes in order to increase their profits. The present Government first raided pension funds then decided that the retirement age must be increased to ensure that more people die before reaching retirement age. And, finally, a number of promises were made to support workers who had lost pensions in the scramble to dispose of final salary schemes but these have not been sufficient and, in many cases, have not been acted upon.

We, in ESPS, cannot expect to be completely immune from these changes. We do not expect the new owners of our employing companies to sell us off or otherwise try to avoid paying our pensions, and we rely on our pension trustees, the unions and the AESP to ensure that this does not happen.

In fact we expect the employers to honour, and continue to honour, their commitments to us as loyal past servants of our companies and the ESI.

How then does the ESPS currently match up to our expectations? Our loss of bargaining power and the current interpretation of the ESPS Scheme rules allows the employers to do almost anything except reduce the amounts of our agreed pensions. Additionally, we are covered by the 1990 Protection Regulations, which provide total protection against any employer failure. So where is the snag?

There is no doubt that our employers now regard the pension schemes as onerous long-term liabilities. But, you may say, they cannot do anything about it. This, unfortunately, is no longer the case. New, aggressive, entrants to the pensions market have encouraged employers to look more closely at how they may shed their long-term pensions liabilities by selling off their pension assets. As we report elsewhere the ESPS is not immune to this approach and for the first time one of our pension groups is in the process of creating annuities, and arranging for members pensions to be provided from outside the Scheme.

Is this going to be the model for the future? We have been told that it is a one-off, special, case and that there are no other plans along similar lines. This buyout can only be achieved because the deal involves all the successors to the original principal employers. As they all benefit from the deal it has been a relatively easy decision for them to make. Whether they will be equally indulgent to buy outs of other individual groups remains to be seen.

It is now even more vital for members to watch what is going on in their Group schemes; otherwise you may be next to find that your employing company has sold out your pension. When potential trustees put themselves forward for election or re-election maybe you should ask what their views are about these matters. May I also beat the drum and suggest that you should make it your business to attend the AGM if your scheme still holds one it might be the only way for you to find out about the future of your scheme!



## **EAS Pension Group members to get annuities**

The EAS Group of the ESPS includes all those people who worked at the centre of our industry in the Electricity Council and more recently at the Electricity Association. The Electricity Association was owned by all the original principal employers, i.e. the twelve companies formed from the area Boards, National Grid and the three companies formed out of the CEGB generation side. Mergers and acquisitions have now seen the number of owning companies reduced to eleven.

The EA operations were wound down several years ago, as it no longer met the emerging needs of the ESI. Other, and other more relevant, utility industry trade association groups have succeeded it. This effectively left EA with no staff, a pension group and some residual property assets from privatisation. As a consequence the owners felt it desirable to wind up the operation.

The immediate need for the owners was therefore to off-load the pension group whilst meeting the pension obligations to both existing and deferred pensioners. Some indication of this thinking was given by the Trustees at a members' meeting in November 2006. However at a meeting in November 2007 it was announced that a deal had been done subject only to the requirement to amend the ESPS Rules to allow annuities to be purchased by the Group. At the present time all that has happened is that annuities have been purchased and they remain an asset class within the ESPS. However the intention is that during the next few months individual annuities will be created and responsibility for payment of those annuities will pass to the insurance company, Legal and General.

This remarkable decision was made with no real consultation with members. Indeed it was argued by the Company that because of the commercial sensitivity no such consultation was possible. The deal claims to meet all the requirements of the privatisation legislation but this is as yet an untested area. As we are all aware even what, on the face of it, appear to be the safest of companies can get into difficulty. Legal and General claims to have 400,000 people receiving pensions. Unfortunately L&G does have enough offices to produce televisual queues so whether its failure could pose the same threat to a government as Northern Rock is doubtful. It remains to be determined whether the 1990 Protected Persons Regulations may yet have a value. ●

## Electricity Supply Pension Scheme – Group Statistics March 2007

	Maturity %	Return %	Fund Value £M	Equities %	Gilts %	Other %
Alfred McAlpine	83	3.8	63	40	52	8
Areva	67	8.1	15	68	27	5
British Energy Combined	16	8.3	58	80	20	0
British Energy Generation	66	6.6	2,629	43	35	21
Drax Power	28	5	99	70	30	0
EA Technology	83	5.1	57	72	18	10
EdF Energy	78	3.2	2,366	52	44	4
Electricity Association Services	99	4.9	183	27	56	17
E.ON UK	82	4.3	4,950	27	65	8
First Hydro (Edison Mission Energy)	42	7.4	49	62	14	24
International Power	15	6.3	91	80	10	10
Magnox Electric	69	2.9	1,671	n/a	n/a	n/a
Manweb	80	4.9	781	52	46	2
National Grid	80	4.8	1,342	62	31	7
Northern Electric	74	6.9	926	51	38	11
Powerhouse Retail	100	3.5	138	27	72	1
RWE Npower	85	3.5	3,630	20	62	18
Southern Electric	78	4.6	1,084	60	29	11
United Utilities	89	4.1	1,176	57	43	0
Western Power	82	8.2	1,268	75	22	3
<b>ESPS Total</b>	<b>80</b>	<b>4.9</b>	<b>22,576</b>			
Scottish Hydro-Electric	76	5.5	998	49	39	12
Scottish Power	69	5	2,092	38	41	21

## **The ESPS AGM**

Thank-you to all members who voted in support of our motions at last year's ESPS AGM.

Our first motion called on the principal employers to consider improving benefits when groups' funding returned to surplus. The motion was passed by 544 - 5. Of course in March 2007 the stock market was in a very healthy state and it was reasonable to have expected a significant reduction in groups' deficits. The resolution drew attention to wide disparity of benefits between groups. The most notable case is that of the spouse's benefit where the worst is 50% and the best is 66%.

Our second resolution pointed out that a Scheme Clause required a Scheme AGM but there was no such provision for group annual meetings. We expressed concern that one group at least had abandoned even an informal annual meeting. We called upon the Electricity Employers to extend Clause 26 to include each of the Groups, so as to ensure that the original purpose of the Clause was fulfilled and that each Group is required to hold an Annual General Members' meeting on the same terms as Clause 26 presently requires for the Scheme AGM. This motion was passed by 540-2. One of those voting against was an elected trustee!

I must report our disappointment at the companies' responses to both resolutions. It is however interesting that the disparity in benefits has come as a surprise to some trustees who firmly believed that their group was no way out of line with the benefits being paid elsewhere. It is clearly appropriate to ask your elected trustees if they know what is going on elsewhere.

EPL at its November 2007 meeting confirmed that issues relating to Group communications with members were a matter for local rather than central decision. EPL decided that it would not be taking any action in relation to the request in the resolution to amend Clause 26 of the Scheme.

The right to an annual meeting was clearly recognised by the Members of the Electricity Council when they approved the Scheme in 1983 so why are the companies, and indeed some elected trustees, so scared of open and democratic challenge that they see an annual meeting as undesirable.

Why this democratic deficit? Why do our trustees wish to deny us the right to attend such a meeting? It surely cannot be cost. We accept that only a few members attend an annual meeting. Should all organisations and companies do away with AGMs because only a few choose to attend. Certainly there is no sign in the 2006 Companies Act that companies can avoid an AGM so why pension groups?

An obligatory AGM is a vital part of the control process. We all know what happens when things take a turn for the worse. Members always turn out in force. Our companies and trustees should be ashamed that they are not prepared to guarantee members a right to attend and challenge actions of trustees.

---

### **One Law for the Rich**

MPs have one of the most attractive pension schemes in the country. According to the Daily Telegraph – 14 May - Gordon Brown has dropped plans to announce new legislation that would reduce severance payments for ministers and cut the generosity of his own pension. Nice when you can feather your own nest!

### **Buyout market to reach £10bn by end of year**

Of course the EAS Annuity buy-out is just part of a much larger move nationally to convert defined benefit schemes to annuities. The bulk annuity market at the start of 2008 was even stronger than the end of 2007, with a number of buyouts in excess of £100m. According to Aon Consulting “the timing is attractive for either a full buyout or (increasingly commonly) a partial buyout, particularly of liabilities relating to pensioners.”

We need to be on the alert for further moves within the ESPS.

## Whither our 3.9%

We were all no doubt thrilled to know that we received a 3.9% increase in our pension in April. We may also have wondered where this number comes from given we have all seen remarkable increases in the basics which we require for everyday living.

I am not a statistician so much of the arcane ritual of creating indices passes me by. However the Office of National Statistics (ONS) provides a wide range of information to help understand what is happening and why our RPI enhanced pension is not all that it might seem to be.

Our RPI increase is based upon the index in September each year. This is the traditional date used by government for national benefits and was presumably selected in the days of manual systems to give time for to get everything amended for the following April. In today's computerised society and payroll systems one cannot help wondering if the effective index could not be brought closer to April. There is of course no guarantee that this would produce a better increase but it would, perhaps, be closer to reality. Actually the year on year inflation in March was 3.8%.

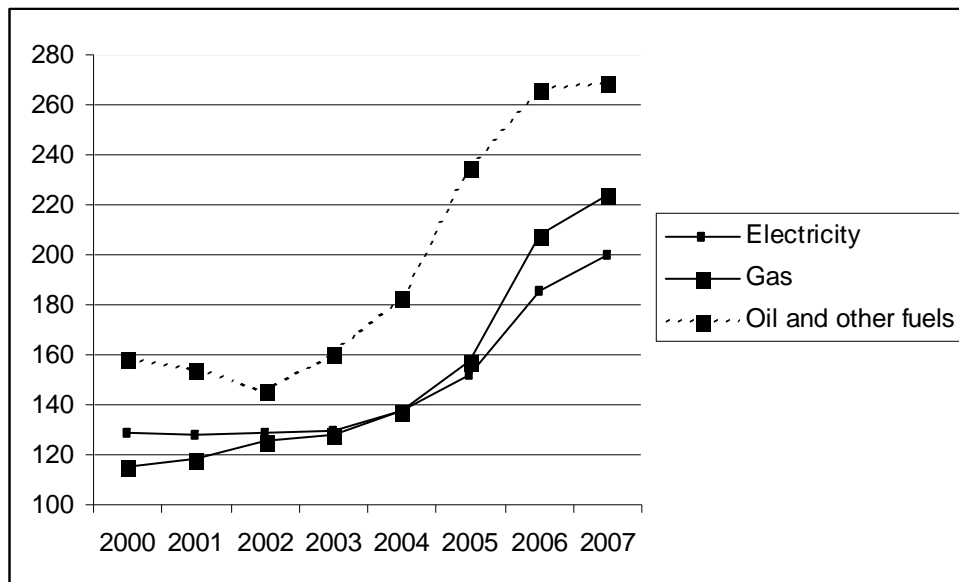
So what happened last year? Are our impressions of an outrageously increased cost of living actually correct? Well they are but they get averaged away by things we don't often want, or need, on a regular basis.

According to the ONS this is the percentage increase in the cost of some of our basic foods over the twelve months to March 2008.

Butter	34.9	Potatoes	5.4
Eggs	31.6	Fresh fruit	3.9
Cheese	16.2	Beef	3.6
Milk, fresh	14.3	Pork	3.4
Bread	11.9	Fish	3.2
Processed vegetables	11.6	Soft drinks	3.2
Poultry	9.1	Sugar and preserves	3.1
Cereals	7.9	Fresh vegetables	2.8
Sweets and chocolates	6.8	Home-killed lamb	2.2
Oil and fats	6.6	Tea	1.2
Biscuits and cakes	6.1	Bacon	0.1

This data might suggest that you should buy English or Welsh lamb, unfortunately it's the most expensive meat. What's left? Some fresh vegetables, perhaps a little fresh fish – steamed, no butter - that is if you have a fishmonger, and don't have egg with your bacon for breakfast.

Energy, another essential, produced a somewhat unexpected picture because of the reduction in gas prices of 1.5% during the year. Electricity was up by 5.2%, solid fuel by 9.2% and oil by an enormous 52%. Energy prices however have, over the years, taken a toll of the heating allowance.



Housing costs such as rates and insurance are also up well above RPI.

So where were the savings made? The price of clothes has dropped. If you bought a new car last year you will be annoyed to now find its price down by 5%. Electrical appliances have come down by nearly 6%. If you bought electronic equipment this year then prices have come down by nearly 20%. Again if you are able to shop around you should be able to get your telephone charges down.

If after all this you feel a need for a drink both tea and wine from the off-licence are in fact affordable because they only increased in cost by around 1%.



## **The Association's aims and objectives**

At the May meeting of Council we updated the aims and objectives of the Association to reflect the developments which have occurred in recent years.

The Objectives of the Association are:

- to represent the interests of employees and former employees in the electricity supply industry and their dependants who are, or were, participants in the electricity supply industry's pension schemes.
- to restore equity in the treatment of the pension benefits of existing and former employees across the pension groups of the electricity supply industry.
- to represent the interests of employees who are members of money purchase pensions schemes within the electricity supply industry.
- to do all things lawful in order to represent these interests including supporting the trustees elected by the members under the rules of the pension schemes.
- to take legal and other professional advice with the aim of ensuring the protection of existing and future benefits.
- to work with other like minded organisations representing pensioner interests to seek improvements in the benefits provided through state and company pension schemes.

-----  
These new objectives will be featured in a new coloured membership brochure which is being piloted at this year's Prospect Conference.

Members will receive an individual copy in due course.

## **OPA Expresses concern about pensioner representation**

The OPA has expressed concern over the poor representation of pensioner members on trustee boards. Roger Turner, Executive Officer of the OPA said: *"Despite pension schemes have an overwhelming majority of non-active members, including 45% of members being retired, pensioner members only make up 11% of trustees.*

*"This statistic is of serious concern, trustees should act in the interests of all members. Active members make up the majority of member trustees and in conflict situations company policy is normally followed, often at the expense of pensioner members.*

*"This was particularly apparent during the period when there were perceived surpluses in pension schemes. Extensive contribution holidays were taken by employers, with little or no consideration for improving benefits for pensioner members."*

The Pensions Regulator's Code of Practice on Member Nominated Trustees was issued following the 2004 Pensions Act, and it stipulates that all active and pensioner members, or organisations which adequately represent them\*, must be involved in the nomination of trustees.

The code, which came into force at the end of October 2006, also states that trustees should determine the new arrangements for their scheme taking account of the principles of proportionality, fairness and transparency. From 2009 the proportion of member nominated trustees must be 50%, a ratio which the ESPS already has.

Of the 31 schemes that were surveyed by the OPA, only 19 had the arrangements in place to fulfil the Code of Practice, with many employers relying on opt out arrangements to avoid meeting the deadline.

Roger Turner said:

*"We believe concessions by the Pensions Regulator will allow pensions schemes to delay up to a year before they have to comply with the Code of Conduct. This is totally unacceptable given that the abolition of opt outs was proposed as far back as 2000. It is vital that the Regulator does not allow employees to further misrepresent their pension scheme members."*

\* This clause was only included in the Pensions Act after extensive lobbying by the OPA and was a feature of AESP representations to various government inquires.

## **Are you claiming all the state benefits to which you are entitled?**

The rules on Pension Credit are changing so if you think you are eligible apply before the 6 October

Pension Credit is an entitlement for people aged 60 or over living in Great Britain. This could mean extra money for you every week. Pension Credit guarantees everyone aged 60 and over an income of at least:

£124.05 a week if you are single

£189.35 a week if you have a partner

If you apply for Pension Credit and are eligible, you may receive a payment backdated for up to 12 months from the day you were first entitled to the date you first applied.

From 6 October 2008, the DWP propose to change this period from 12 months to three months. If you want to apply for more than three months in the past, please make sure we get your application before 6 October 2008.

The easiest way to claim Pension Credit is over the phone. You do not have to fill in a form yourself or visit an office. You just ring a free number **080099 1234** and the form will be filled in for you and posted to you. All you need to do is check it, sign it and post it back. When you call, it will speed things up if you have your National Insurance number and details of your income and savings to hand.