

Welcome to Spring 2009. Nothing seems to be going right in the world of high finance and, we, as pensioners are certainly not immune to its effects.

This Newsletter is somewhat later in publication than we intended but we hope you will find the contents of interest.

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Annual General Meeting will be on Tuesday 29 September at 14:00 at the headquarters offices of Prospect: New Prospect House 8 Leake Street London SE1 7NN.

Our Speaker will be Neil Walsh - Prospect's Pension Officer

" The Protected Persons Regulations – Do they mean anything"

Don't forget that our Web site www.aesp.org.uk

Information - or the lack of it

We always try to keep you up to date with information about the ESPS. However we know that some companies are very protective of the information of the group they sponsor. So much so that they put every obstacle possible in the way of obtaining information.

Of course the performance of the group funds is very difficult to compare. You really need to be an actuary to do it as the investment objectives depend on the maturity of the fund – the number of contributing and pensioner members, the age profile, contribution rates by employee and employer, the deficit or surplus in the fund and the degree of risk which the trustees wish to take. So the information we publish clearly comes with a 'health' warning. Bear it mind too that deficit information is now well out of date. Deficits will be considerably greater, several times larger in fact, than that at the March 2007 valuation.

We find it hard to get even the basic information. What does surprise us is the difficulty some ESPS members have in getting even the information to which they have a legal right. You should not have to ask more than once for a copy of your annual report. If you are interested in the triennial valuation this should also be sent by return. One of our members has asked four times and has been pushed from one person to another. He still has not received the report. We are forced to conclude that this is a deliberate policy. Why? What should be so secret about our investments and the policy that only trustees and their advisers are seen to be good enough to have the information. The Pensions Acts say otherwise. We expect much more openness.

It has to be assumed that Ofgem will, as a part of its distribution price review, have better luck. Whether the companies agree to its subsequent publication remains to be seen.

The need to be alert

2009 is proving to be a year of personal, commercial and industrial turmoil. The last 12 months have seen dramatic falls in stock markets throughout the world and many employers, shops and smaller commercial businesses are feeling the pinch financially. The less said about the banks the better! It's all doom and gloom and the ESPS has not escaped.

Over the past two years we have seen the emergence of a much harder line being taken by employers to reign in costs and to search for alternative means of ridding their balance sheets of unwanted liabilities. Indeed, one of our Schemes is in the final stages of being sold off to an insurance company and it may be that others could follow if our trustees and trades unions do not assert greater authority to prevent this from happening.

However the issue may not rise in the immediate future given the level of Scheme deficits which have, of course, increased – some to alarming proportions. At the time of writing there has been some modest improvement from the bottom of the market. It is to be hoped that, by 2010, when the next scheme reviews are due to take place, markets will have improved and deficits will be reduced. To this end, it seems unlikely that employers will be making up deficits until that time. They are, however, using the present difficulties to excuse the tightening up of such benefits as are still permissible to them. An example of this is that one employer, currently investing £13bn in nuclear power, is withdrawing from 2011 early retirement benefits which it has afforded to members since 1994.

It is bad enough that civil servants (Ofgem) try to muscle in on our pension arrangements. At least our sponsoring companies have some justification. It is vital that elected trustees and trades unions are alert to what might be on the agenda. We will continue to be vigilant.

ESPS Annual Motion

Members will be aware that a motion by Jack Andrews and Dave Laws at last year's ESPS AGM in October, asked the employers to alter the Scheme rules so that any future "sales" of pension liabilities would require a two-thirds majority agreement of the members affected. 1,014 members voted in favour of this resolution and 14 against (out of a possible 200,000). Did you vote? Or did you not even know about the meeting, let alone the resolution?

EPTL (the employers) considered the resolution at its January meeting and concluded that "..... EPL determined that it did not wish to make an amendment to Clause 41the future provision of benefits at Group level were entirely a matter for decision at local level...it was open to individual employers to consider this".

We would encourage all of you to approach your trustees and find out what they propose to do now. Don't however hold your breath for a local annual meeting!

Pensions Group Funds as at 31 March 2008

	Maturity %	Annual Return %	Fund Value £M	Equities %	Gilts %	Other %
Alfred McAlpine	85	-2.20	46	55	35	10
Areva	75		14			
British Energy Combined	22		62			
British Energy Generation	65	1.50	2,649	43	41	16
Draxpower	29		100			
EA Technology	84		56			
EdF Energy	79	0.30	2,317	48	50	2
Electricity Association Services	100	9.70	189		100	
Electricity North West	89		843			
E.On UK	79	5.20	5,091	18	73	9
First Hydro	44		51			
International Power	15		94			
Magnox Electric	69	5.60	1,702	11	39	50
Manweb	80	0.50	759	48	50	2
National Grid	80	0.80	1,321	56	38	6
Northern Electric	74	-1.30	912	43	46	11
Powerhouse Retail	100		138			
RWE Npower	84	0.20	3,528	15	67	18
Southern Electric	78	-2.70	1,076	52	30	18
United Utilities	88		270			
Western Power	82	-3.20	1,191	70	27	3
ESPS Total	79	1.40	22,412			
Scottish Hydro-Electric	76	2.60	1,003	49	39	12
Scottish Power	71	2.40	2,099	35	56	9

Group Actuarial Valuations March 2007

Group	Assets £M	2007 Deficit £M	Funding Level		2004 Deficit £M	3 year % return (pa)
			ongoing %	Discon- tinuance %		
Alfred McAlpine	47.1	15.2	75.6	57.6	9.1	13.0
Areva	---	---	---	---	---	---
British Energy Combined	58.0	3.2	94.8	78.3	8.8	16.1
British Energy Generation	2,641.8	174.0	93.8	67.0	375.8	13.4
DRAX	99.4	16.1	86.1	69.1	20.4	15.3
E.ON UK	4,955.0	295.0	94.4	75.0	729.1	10.8
EA Technology	58.8	8.2	88.0	71.0	10.8	10.5
EDF Energy	2,366.0	122.0	95.1	72.1	370.7	12.6
Electricity Association Services	182.9	5.4	---	97.1	9.2	10.8
First Hydro	---	5.8	89.4	---	5.4	13.6
International Power	91.6	6.2	93.7	66.7	7.4	15.0
Magnox Electric	1,636.4	92.9	95.0	80.0	148.4	12.0
Manweb	776.0	9.0	98.9	79.0	132.2	11.6
Northern Electric	926.7	95.1	90.7	75.6	190.3	12.6
Powerhouse Retail	138.0	9.7	93.0	77.0	4.4	8.5
RWE Npower	3,628.0	175.1	95.4	76.1	136.0	9.0
Southern Electric	1,101.5	259.8	80.9	60.0	275.5	11.7
The National Grid Company	1,345.0	405.0	76.9	61.0	271.5	12.3
United Utilities	(d)	(d)	(d)	(d)	113.9	12.2
Western Power Distribution	1,267.4	136.4	90.0	70.0	195.3	13.7

(d) United Utilities valuation deferred pending sale of wires business

Cost of Retirement

We will all be heartened that this year's April increase in our pensions will 5% - based on last September's RPI. The RPI, which includes housing costs, fell to 0% in February on an annual basis. However the consumer prices index (CPI), the government's preferred measure of inflation, showed an unexpected rise for the month to 3.2%. The fall in RPI, as recorded in the Office for National Statistics data, stems largely from the fall in mortgage repayments after a series of interest rate cuts. I see that one lucky person with a tracker mortgage is paying just one penny a month in interest – the computer cannot apparently handle zero.

However we should be alert to the fact that the CPI and RPI both have components which hardly affect us as pensioners. Most of us will not have a mortgage and I sure do not regularly purchase a wide range of electronic goods.

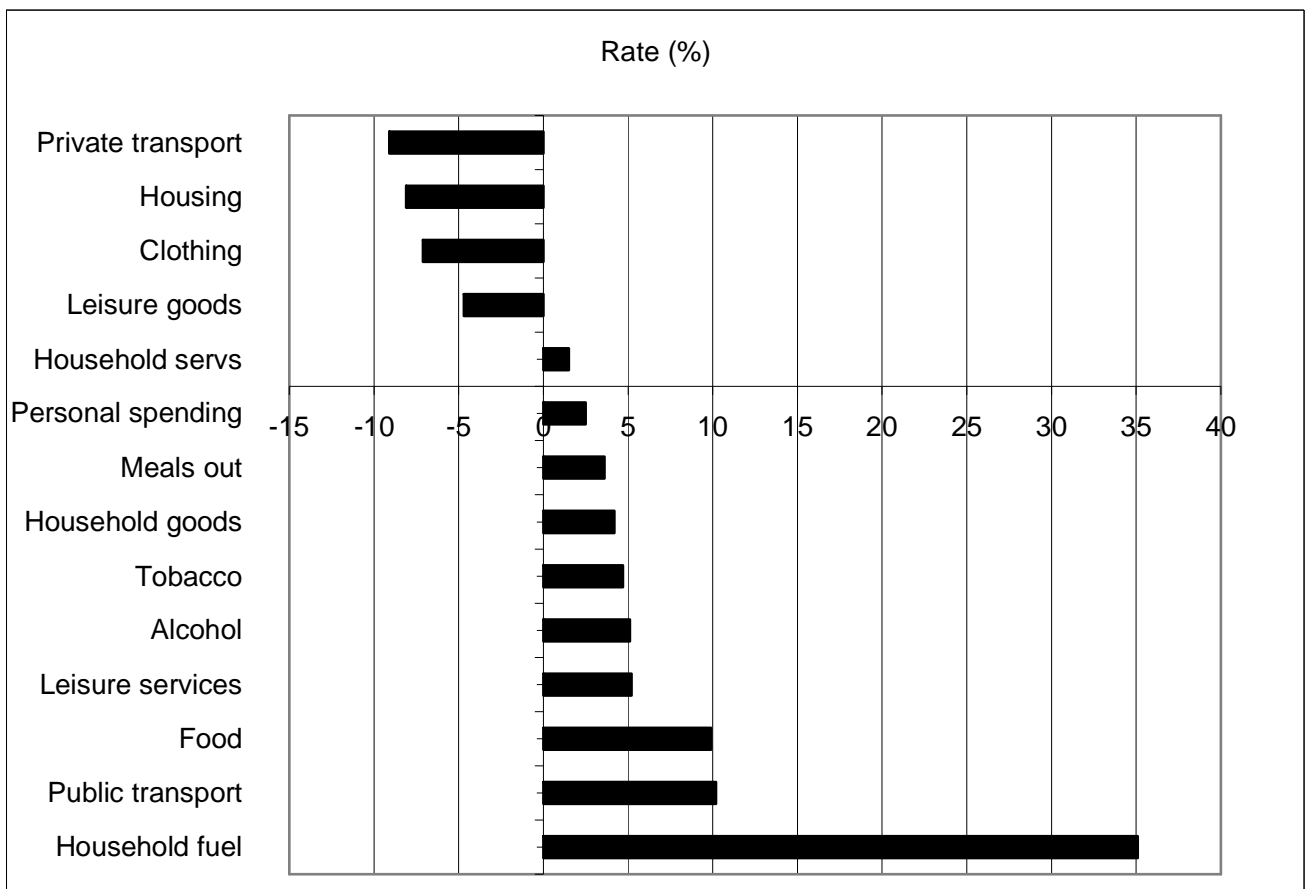
Food prices have not fallen over the last twelve months, quite the reverse. The basket of products used by the Daily Telegraph has increased in cost from £25.28 to £29.83 (21 March 2009), that is an annual increase of 18%. Our Council taxes too will be increasing by anything between 3 and 4%. There is some relief that our energy costs may have fallen in the last few months and this will no doubt improve the index. But don't be fooled energy prices are still considerably higher than they were a year ago anything from 30 to 60% depending on your supplier and whether or not it has recently reduced its price. We can all benefit from our free bus pass but most will still find a car useful and insurance rates are also well up on a year ago.

And of course the real killer! Did you have any savings in the bank or perhaps a few shares probably bought at the time of 'Fred'. Well none of it looks too happy. The Association's own base rate tracker account now earns the remarkable rate of 0.1%. If you want to shop around there are of course better deals but changing bank accounts has become such a palaver as we are now all treated as potential drug barons seeking to convert vast illegal income into legitimate income. Also it is most important that you read the small print as many apparently good deals either require a regular monthly deposit or only pay the 'high' rate up to a relatively small balance.

The problem for us all as pensioners is that we can do little or nothing to change the situation. We are in the hands of a government of largely third-rate ministers, propped up by a dysfunctional civil service and many MPs with their snouts in the trough. These groups of course have well protected pensions so they are not too concerned if their policies adversely affect the pensions of those whose pensions were in fact based on real assets and not the future taxes on those yet unborn! As regards Gordon Brown's steal of £5 billion annually from private pension schemes this will now, after 12 years, have grown to an alarming £90 billion.

Annual Inflation Rate January 2009

January RPI = 0.1%



source ONS

OFGEM Interferes with pensions

In August last year, OFGEM, the civil service quango responsible for regulating 'monopoly costs' in the energy industry, issued a consultation document dealing with the treatment of pension costs during the next distribution price review period commencing in April 2010. The document contained some telling phrases; these included:-

"Ofgem's principal objective is to protect the interests of consumers"

"Across the price control reviews, we have observed a sharp increase in employer contribution rates to defined benefit schemes.....DNOs and other licensees have indicated that pension deficits have increased significantly at 31 March 2008 over the previous year"

"...a deficit will require additional payments by the scheme sponsor and employees to eliminate it and ensure the solvency of the fund"

"...., with DC, schemes, employers' contributions are fixed and the sponsor bears no risk from shortfalls in investment returns nor does it have an obligation to fund deficits".

"Consumers should not be expected to pay the excess costs of providing benefits that are out of line with private sector practice, nor for excess costs avoidable by efficient management action"

"Following review, we have in practice allowed all pension cash contributions in the last three controls. There is a risk that if the companies know they will have their actual costs guaranteed and met through price control allowance; there may not be the incentive to explore alternative funding bases apart from the conservative basis proposed by the trustees and their actuary....."

"As long as a funding valuation uses actuarial assumptions which are in line with best practice the costs will be allowed in full..."

"Our primary duty is to protect consumers' interests and we are concerned about the risk of creating a perverse incentive for sponsors to take a more relaxed stance with trustees in allowing an excessively cautious funding strategy because of a belief that we will allow any costs that arise. "

“In the past several companies (eg, Emap, Rank and P&O) have been involved in the selling on their pension liabilities, as has a small section of the ESPS.....the Electricity Association Services Limited. The latter was bought out by *Legal and General* for £182 million. If the terms and conditions are right it is possible that this could encourage other employers participating in the ESPS to consider a similar deal”.

“(Any) course of action would need to consider the protection afforded by the Electricity Act 1989to certain pension scheme members at the time of privatisation and, if necessary, the cost of buying that out”

“We are concerned that the current principles may not give companies an adequate incentive to consider selling on their pension liabilities where this would be in customers’ interests. ***If it is found that there are insufficient incentives one potential option might be for OFGEM to require sponsors and trustees to crystallise their liabilities by running*** a competition to buy out the liabilities”.

You get the general drift of this document, which ran to 36 pages. It contained several important inaccuracies which we dealt with in our response. Neville Wrench attended the consultative meeting held in October and spoke clearly setting out the Association’s view. There were some other sharp responses to this document from employers and trustees. Both Prospect and GMB spoke making their position clear. All present agreed that Ofgem should not seek to interfere with pension arrangements.

This is some of the Association’s submission. The full document can be seen on our web site www.aesp.org.uk

a) We are certain that our employers are not incurring additional pension liabilities with a view to passing them through to their tariffs; all our schemes and trustees observe the pensions legislation to the letter and the degree of risk incorporated into our schemes accords very favourably with other similar schemes. We believe that scheme specific assumptions allow group trustees to make efficient decisions regarding their scheme membership.

b) Final salary pension schemes have been part of the personnel structure of our industry since before nationalisation in 1948 and have contributed to stable industrial relations and to continuity of regular and reliable supplies to customers; if this facility were to be withdrawn, sold off or abandoned staff morale would undoubtedly suffer and industrial consequences could follow, with repercussions on our customers;

c) In the event of any “sale” of pension liabilities, considerable additional costs would be incurred not only in legal expenses from members’ attempts to prevent such sales, but also in the fact that employers would have to immediately fund such schemes to the “buy out” levels required by the Electricity (Protected Persons) Regulations. It needs considerable research to assess whether the financial market could in today’s environment finance a ‘buy-out’ of ESPS liabilities.

d) In view of the long-term investment character of our schemes, we would hope that Ofgem would take the long-term view of deficit and regular support expenses; this could have a beneficial effect on customers as the economy improves and scheme deficits reduce with improved investment performance and scheme cost reduction possibly leading to surpluses;

e) Ofgem is not legally competent to direct the decisions of independent trustees.

f) We recognise that financial, political and legal pressures can be brought to bear on our employers to make such changes as replacing the few presently “open” DB schemes with, more risky, insurance style offerings. The ESPS already has provision for such schemes.

g) We are concerned regarding your principle that any surplus must be passed back to the customer. It needs to be understood that the pension is a contractual liability between the employee and the employer. Any surplus which is generated as a result of wise investment by trustees, acting for the employees, cannot automatically revert to the ‘customer’.

h) Your approach to the disposal of surpluses must be constrained by existing court decisions regarding the disposal of pension fund surpluses. We would also point out that in Europe pensions are deferred salary and therefore the property of the employee and not for sequestration under any Ofgem formula. In the current financial market situation – and probably for many years – we recognise that the likelihood of any distributable surpluses is low.

Ofgem backs down

In its Electricity Distribution Price Control Review Policy December 2008 Ofgem acknowledged in went too far when suggesting that it could direct trustees.

5.39. Ofgem does not have the power to, nor do we seek to, direct the trustees of pension schemes to make any particular decisions or take any particular actions in relation to company pension schemes. The management of the companies, in conjunction with the scheme trustees, are – and will continue to be - free to make their own decisions on pensions and their other costs. Our consultation was looking at the financial incentives we place on the network companies' management and ultimately shareholders to manage these costs effectively to protect consumers' interests.

Ofgem is obviously doing further work on the issue. It has issued a 12-page questionnaire to all licensees requiring information on each defined benefit scheme in which the licensee has participated since 1990. This is part of Ofgem's drive for greater transparency. Whether or not the responses are published remains to be seen.

DWP Consultation - Payments to the employer (the “surplus” rules)

The Association made the following comments in response to a DWP discussion paper which asked whether there should be changes regarding distribution of any surplus.

“Surpluses can be transient as the experience of the 21st century valuations shows. The value of a scheme's assets/liabilities can be calculated by the by the day but this is meaningless. It is important to recognise that pension schemes are long-term investment vehicles with liabilities going out eighty years. A stable regulatory environment is essential rather than any short term fashionable fix. It is important also to recognize that surpluses/deficits are calculable in several different ways and there must be an internal consistency in this respect.”

In response to specific questions we said:

Option 1 *Clarifying to trustees, through guidance or otherwise, that the requirement for them to be satisfied that a payment to an employer was in the interest of the scheme's members, goes no further than common law fiduciary duties and was not a higher test.*

We believe that there should be no reduction in trustees' actual, or perceived, duty to act in members' interests.

Option 2 *Introducing a legislative requirement for the benefit of any "surplus" to be divided between the sponsoring employer and scheme members.*

This is superficially attractive and indeed many of our members would say a 50:50 split would be ideal. However any legislation, which fetters the discretion of trustees in defining what would be in the members' interest, is not to be welcomed. We also fear that this may cause employers to be reluctant to agree plans to recover deficit positions.

Option 3 *Lowering the threshold for consideration of payments from the estimated "buy out" level.*

We cannot see how lowering the 'surplus' level would be in members' interest.

Option 4 *Lowering the threshold for open schemes only.*

Although most ESPS schemes are closed to new members we would still oppose any lowering of the threshold, as this would not protect members' interest.

Option 5 *Encouraging trustees and employers to agree in advance the circumstances in which a return of surplus would be authorised.*

The Scheme Rules set down what is permissible. We believe that trustees and employers should seek agreement when the valuation of the scheme is known.

Option 6 *Allowing trustees to consider a payment to the employer even if the rules of the scheme do not allow this.*

It would seem wrong to legislate in this area. It is for the trustees to change their scheme rules consulting with whoever is their normal practice.

Option 7 *Leaving market solutions to address any concerns raised by rules governing return of "surplus".*

There must be no solutions that will adversely affect the members and beneficiaries. In general we would be against market solutions.

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The EASL Annuity Purchase

The EASL deal with Legal and General will provide its members with some additional benefits such as a standardisation of spouses' benefits to the highest rate and also a "guaranteed" indexation to future RPI levels. The trustees have not at the time of writing confirmed whether or not a negative RPI could mean a reduction in the pension.

Unfortunately, there is another potential "downside"; EASL members could lose their protected member status under the Electricity Act of 1989 – a highly significant loss we feel. You may regard this as a dangerous precedent.

One of group members, with the help of the Association, took the matter to the Pensions Ombudsman. The Ombudsman decided that, given the relatively small number of members involved and the unusual circumstances of this Group (which has 11 participating employers) the trustees acted correctly and lawfully in making an annuity purchase. His determination regarding the protection regulations appears to be inconclusive so this is a matter which may have to be resolved at some time in the future if the wrong set of circumstances come to pass.

National Pensioners Convention

Campaign Briefing Pensions' Action Day 6 April 2009

INTRODUCTION

Britain's economy is in crisis and, in order to help out banks and business, taxes will be increased and social services cut. The living standards of millions of working, disabled and retired people are threatened. Nowhere is this more evident than on the issue of pensions; facing both existing pensioners and future generations.

On April 6th, the basic state pension will rise by just £4.55 a week and £2.70 for millions of women who rely on their husband's contributions. This will raise the pension to a mere £95.25 for a single pensioner. Such a low state basic pension means millions of pensioners remain on means-tested benefits and today's workers face poverty when they retire.

Only a decent state pension provides an effective and reliable way of guaranteeing real financial security in retirement.

That is why we are calling on all our affiliates and supporters to organise protests on April 6th and make a stand for a decent state pension for all generations.

THE PENSION ISSUE

For years, successive governments have relied on means-tested benefits for existing pensioners and good quality occupational pensions for today's workers as a way of avoiding having to pay a decent state pension. But this approach is now unravelling:

- 2.5m existing pensioners live below the official poverty line of £165 a week and millions more are struggling just above that level to meet the rising costs of living
- Between 1997 and 2006, the number of people living in severe poverty - defined as living on less than 40% of median population income increased by 600,000. The poorest quarter of pensioner households saw their incomes rise by less than 1 % last year, well below inflation. The poorest single pensioners saw their real incomes drop by 4%
- Around 62% of pensioner couples have an annual income of £15,000 or less, and 45% of all single pensioners have an annual income of £10,000 or less
- Means-tested benefits fail to reach 1.8m pensioners who are eligible to claim

- At least 75% of final salary occupational pensions have closed to new entrants
- The current economic crisis is estimated to have wiped £250bn from pension funds
- The average private pension pot will eventually give a single man of 65 an annual income of £1,960. A pension pot of £100,000 will give you a yearly sum of just £4,500
- Up to 6m existing workers have no pension provision other than the state

Despite government suggestions that they have reformed pensions - our state pension system needs urgent attention in order to ensure real financial security for everyone in retirement, and end the over-reliance on private pension schemes which are governed by a volatile stock market.

WHAT WE NEED

As a first step, the state pension should be set above the official poverty level of £165 a week, paid to all men and women, and linked to earnings or prices (whichever is the greater) now.

- Using the surplus in the National Insurance Fund, which currently stands £46bn, and is forecast to grow to £114bn by 2012
- Abolishing the upper earnings limit on national insurance contributions would raise at least £8bn a year
- Scrapping higher rate tax relief and tax avoidance (through tax havens) on private pension contributions could raise up to £40bn a year

WHAT CAN BE DONE?

All affiliates are encouraged to take part in this nationwide day of action. Please consider organising some form of protest, such as:

- Staging a lunchtime demonstration outside local DWP offices (where possible in conjunction with PCS union)
- Holding a public meeting with guest speakers from supporting organisations and/or local politicians, prospective parliamentary candidates and MPS (where possible)
- Organising a street stand and/or distribute campaign leaflets to the public
- Organising some form of protest/direct action/publicity stunt as agreed by your members

Make sure you inform the NPC office what you are planning so that we can co-ordinate efforts across the country and notify the media accordingly.

FOR MORE INFORMATION Contact Neil Duncan-Jordan NPC National Officer
Email: info@npcuk.org Tel: 07940-357-608

Association of Electricity Supply Pensioners

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.

Please notify change of address or circumstances to:

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