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2003 Some Recovery - But Little Progress

The Scheme AGM and the Group meetings are now over. The annual reports of course covered the year ending March 2003. At that time the markets were at a five-year low. The stock market crash had reduced the assets in many pension schemes, including our own, by some 30+%. The Annual reports made depressing reading.

However as 2003 ended the markets had recovered some what and while it is hard to imagine any surpluses being reported in the next triennial valuation lets us hope that the recovery continues and gives our trustees something to play with.

Each group of course has a mix of liabilities and a different portfolio of investments designed to fund that liability. The extent of the market recovery to bring schemes back into surplus will therefore vary considerably. It is however probably true to say that we will need to see market back well into the 5000s before we can look to any further substantial benefit increases again.

Some groups now provide much better benefits than others. We will continue to argue that this is a negation of the principles on which the Scheme was established - equal benefits for equal contributions. This is the challenge to our trustees. If one group can provide a particular size of benefit why can't yours? The best that can be achieved must be available to all members of the ESPS.

Comment

The Government's Pension Bill has now been published. For all the talk and prior consultation what does it offer us? The written word certainly does not live up to the rhetoric. 235 pages are a lot of reading so is it any wonder that our legislators frequently get it wrong. As is customary nowadays there is a lot of scope for legislating by statutory instrument so we will need to keep a close eye for this type of legislation once the Bill becomes law. The Bill requires the Secretary of State to consult before issuing codes of practice but as we know from previous consultations he has a curious concept of who is best placed to represent the views of pensioners.

Pensions Protection

A new Pensions Regulator is to be established. OPRA's functions will be transferred to the new Regulator so reporting by, and monitoring of, schemes to ensure prompt payment of monies to trustees will continue. This is probably just a tidying up exercise of only technical significance.

Of much greater significance is the creation of a Pension Protection Fund. This is perhaps what is turning out to be the most controversial part of the Bill. The idea is that a fund will be created by a levy on successful schemes to pay for any shortfall in underfunded schemes when the company becomes insolvent. The benefits to be paid are substantial and, as members of pension schemes, we must in principle welcome the proposal. The difficulties faced by British Energy and elsewhere in the ESI show that our historic expectation that electricity companies could be considered gilt edged is no longer an absolute.

We wonder if Government has considered all the implications. Companies are still struggling to maintain final salary schemes. The most cynical of the financial commentators are cheerfully expecting that once the scheme is launched there will be a number of sudden company closures confident in the fact that their pension scheme liability will be met by others.

Is it not time for the Chancellor to re-consider his decision to remove nearly £6 billion each from pension funds. This would be a statesmanlike decision and a major contribution to Britain's pensions provisions today and in the future. Regrettably it is a decision he is unlikely to make. It seems more likely that the intended Government levy on pension schemes in order to protect the poorest funded will just exacerbate the pensions crisis. The setting up of a Pension Protection Fund ombudsman will be of little consolation when all the funds disappear.

From 5% to 2½%

The Bill introduces the now infamous 2½% limit on pensions indexing. Infamous because at the time it was suggested inflation as measured by the RPI was 2.9%. This it is itself unsatisfactory but when set against the expected rises in council taxes is it any surprise that there are a lot of dissatisfied pensioners.

The new limit it is introduced in similar form to the 1995 Pensions Act and indeed is an amendment to that Act. As far as I can see the application of this clause will produce a multi-tiered pension position for members of a scheme.

It would appear that existing pensioners and those whose pensions are determined by employment prior to the 'appointed day' will continue to enjoy the right to a 5% cap and companies will be obliged to pay at least RPI up to 5%. Those continuing in employment after the appointed day will enjoy a 5% cap on that part of their pension due to employments before that day and 2½% thereafter. Anyone starting a pension after some date in 2005 will have a 2½% cap.

It is important to stress that the 2½% cap is similar to the 5% cap imposed in the 1995 Act. That is it requires the pension fund to pay at least 2½% if the RPI exceeds 2½%. There is nothing in the Bill which prohibits a scheme for paying at the rate of inflation, or possibly above, if the scheme so chooses.

We earnestly hope that our trustees and companies will follow the Scheme's usual practice and continue to award a minimum increase of RPI.

Lack of representation

The Bill continues to provide as its minimum standard woeful under representation of both actives and retired members as scheme trustees.

To keep active member participation to 1/3 is an inadequate response in this day and age. To leave out pensioner representation is unforgivable. With more and more schemes nationally being closed to new members the proportion of retired members must rise. It is only right and proper that they be given the opportunity to nominate and vote for retired scheme members as trustees.

This is NOT an issue in the ESPS as we have 50% elected trustees and the opportunity for retired members to be elected. However we see no reason not to campaign for the high standard which our own scheme sets in this respect.

Our Response to Government White Paper

The Government White Paper on pensions was published last Summer. Below is a summary of the Association's views which we sent to the Secretary of State. The detailed response made by the Association to the Department of Work and Pensions is published on this web site.

1 The Association welcomes many of the proposals in the White Paper. However the Association feels that the aims and objectives of the Government, mainly directed at cost saving, will do little to encourage saving at the right level for adequate pension provision in years to come.

2 To achieve something like the benefits offered in the best public and private defined benefit schemes requires a funding rate across the employees working life of something around 18-20% of salary through the working period. Pickering suggested that a minimum of 15% was required. The proposals in the White Paper come nowhere near to encouraging this level of investment into pension provision.

3 The Association deplores the proposal to set the mandatory level of inflation indexing at 2.5% rather than the existing 5%. Whilst the Government's stated aim is to keep inflation below this level, it currently stands at 2.9% and historic inflation rates have greatly exceeded 2.5%. By setting a cap Government will effectively erode the value of all private pensions. It must be clear that this is minimum and there will nothing in law to prevent a fund paying higher than 2.5% should the RPI be above that level.

4 The Association welcomes the statement that the Government will not follow the Pickering recommendation and will expect pension schemes to provide for survivor's benefits.

5 The decision to legislate for a Pensions Protection Fund, whilst superficially extremely attractive, will be another tax on well-run schemes. The protection benefit of 90% of earned benefits for employed members will, if a frozen benefit, be far less at retirement than the expected benefit if the employee had stayed in employment and continued to earn at that level

and contribute to a scheme. The Government should protect the transfer of the protected benefit into another live scheme run by a subsequent employer.

6 The Association believes that the salary level proposed for protection (£40,000 - £60,000) is far too low. This is the salary range which covers teachers with responsibility allowances, police officers and many engineers and junior managers in the energy industries. It is not the salary range of senior executives.

7 Members of the Association were historically associated with a pension scheme and employment contract which required compulsory membership of the pension scheme. It is disappointing that Government proposes that pension provision remain voluntary as all the evidence points to a significant reluctance in the general population to make adequate pension provision.

8 Given the experience of its members in the courts the Association is disappointed that it will still not be a requirement on regulators and the ombudsman to defend their decisions on behalf of complainants to the courts if that decision is challenged by employers.

9 The Association deprecates the unwillingness of the Government to legislate on the ownership of pension funds. Pensions are deferred salary and therefore the pension fund should be the property of the fund members – pensioners and employed members. No monies of a scheme should be payable to an employer and employers should not be able to apply monies in a scheme for purposes other for that of the scheme.

10 The Association believes that the actuarial profession has done a great disservice to pensions in recent years by changing the basis of valuing liabilities. This methodology was introduced at a time when asset values fell sharply and has therefore exacerbated the apparent deficiencies in pension funds. The Association calls on the Government to establish an independent methodology for valuing the liabilities of pension funds.

11 The Association believes that all pension funds should have equal voting representation by employers on the one hand and employees and pensioners on the other. There should be a minimum on one employed member trustee and one pensioner member trustee on all pension trust boards (should such stand for office). All pension trusts should have an independent chairman.

Chancellor now extracts £6 billion from pension schemes

The loss of the pension tax credit in 1997 was a savage blow to pension funds. It is now estimated that it will deprive pension and charitable funds of getting on for £6 billion this year.

Our Pension Fund Valuations

The Table below compares the performance of the various group funds as at 31 March 2003. All group fund values will have recovered since that date.

Provider	Maturity	Return %	Fund Value £M	Equities	Gilts	Other
AEP	2	-5	34	100%	---	---
AES Drax Power	24	-24.17	34	82%	18%	---

Alfred McAlpine (1)	49	-17.60	30	---	---	---
British Energy Combined	9	-5.20	29	89%	10%	1%
British Energy Generation	69	-16.40	1,505	67%	23%	10%
EA Technology	81	-26.80	38	88%	10%	2%
East Midlands Electricity	89	-16.50	715	64%	28%	8%
Edison Misson Energy	28	-30.50	23	80%	7%	13%
Electricity Association Services	94	-7.90	147	50%	37%	12%
ESN	100	10.30	0.3	---	100%	---
Homepower Retail - Wound up	---	---	---	---	---	---
Innogy	90	-4.50	2,344	27%	70%	3%
International Power	2	-4.70	33	80%	10%	10%
London Electricity	73	-19.10	874	70%	30%	---
Magnox Electric	67	-17.70	1,001	65%	25%	10%
Manweb	79	-19.20	448	70%	30%	---
Midlands Electricity	82	-10	764	43%	51%	6%
Northern Electric	73	-17.50	581	70%	20%	10%
Powergen	89	-20.50	1,130	72%	28%	---
Powerhouse Retail	100	-1.60	118	21%	79%	---
Seeboard	83	-14.10	594	60%	33%	7%
South Wales Electricity (2)	---	---	---	---	---	---
Southern Electric	80	-21.20	664	56%	38%	6%
The National Grid Company	78	-18.60	971	70%	30%	---
TXU Europe (Formerly Eastern)	90	-21.30	661	75%	20%	5%
United Utilities (Formerly Norweb)	81	-14.70	775	75%	25%	---
Western Power Distribution Group	83	-19.60	871	75%	22%	3%
Yorkshire Electricity	94	-7.60	679	20%	72%	7%

Note 1 Formerly Eastern Contracting

2 See Western Power Distribution Group

Successful motion at Scheme AGM

So far, none of the electricity employers has gone into liquidation; in fact they are all currently

assuring their trustees that the DB scheme deficits will be addressed and most, if not all, have abandoned their outstanding surplus credits and begun to contribute at increased rates. Let's face it, we have been lucky to have escaped as we have the problems in some other industries.

Last year, representatives of two of our companies allegedly made statements to the effect that, as foreign companies operating in the UK, they did not feel bound by the Electricity Supply Protection Regulations which were enacted in 1989 to protect ESI members and the benefits of the ESPS Scheme. These statements were apparently made in the presence of a senior trade union official and were quickly reported to us. Your Directors followed this up with the Scheme Secretary and with EPTL, the Scheme Trustee. We were pleased to learn that both employers and the Schemes concerned denied any knowledge of the comments. However this clearly illustrates our need to keep our eyes on the ball. Perhaps a kite was being flown and our intervention caused them to have second thoughts.

Given the imminence of the Government's new Pension Bill we believed it was appropriate to put our position clearly on record. As a result we put a motion to the Scheme Annual Meeting. The motion was composed with the active help of Scheme officials and we are grateful for their input on this important issue.

"This AGM is deeply concerned about some of the proposals contained in the Government's White Paper 'Simplicity, security and choice. Working and saving for retirement - Action and occupational pensions'.

Depending on the way in which these proposals are implemented it is possible that commitments given to members through the Scheme Rules and the Protection Regulations in relation to their future entitlements could be over-ridden.

One proposal is to reduce the cap on guaranteed annual pension increases to 2.5% or RPI whichever is the less, regardless of the level of RPI, for entitlements accrued from 2005. This could create two-tiers of pension benefits.

In the ESPS a cap of 5% is generally contained in the Scheme rules but has never been applied, pension rises having always followed RPI up to whatever level it reached, a policy we trust will be continued.

We call upon EPTL to monitor developments critically in the interests of protecting members' entitlements and to strenuously make known to the Government our objections to any action which undermines any aspect of the protection given to members and to ensure that the existing Protected Person Arrangements are maintained. "

We are pleased to report that the motion was passed with the full support of all present.

EDF Energy launches final salary pension scheme

In November EDF Energy announced a new final salary pension scheme. Its intention is to offer a much more predictable retirement benefit for its employees. Some 3,000 of EDF Energy's 11,000 staff are not in pension scheme and the new scheme is particularly aimed at them.

The new scheme will bring together four existing money purchase schemes, under a new flexible final salary arrangement. It does not affect the company's 5,000 members of the ESPS.

Members of the new scheme will be offered a core benefit, and will have the opportunity to

increase their contribution in order to receive a higher pension on retirement by making additional contributions.

It is expected that the new scheme will open in the in the first quarter of 2004.

Vincent de Rivaz, Chief Executive, EDF Energy said:

"When reviewing our pension arrangements we decided that we should look at a bigger picture than just mid to short term cost issues. Pensions are a long-term investment, and we are determined to make a long-term commitment to our employees."

Occupational Pensioners' Alliance Formed

AESP is a founder member of the Alliance of Occupational Pensioners - <http://www.opalliance.org.uk/> - which has given your Directors the "wider view" of what is going on in other companies' schemes and in the industry generally. We are one of the better and "wealthier" schemes in this partnership but we are using our influence and are able to expand their discussions beyond the basic levels of the national pension and pension credits etc, important as those are to many members.

AOP has been in discussions with the only other national occupational pensioners organisation, COPAS, for several months to see if a merger would be possible; the idea was to strengthen our collective voice with Government, the media and in legal matters and to pool resources to a common end. This has now been achieved and the new organisation is to be called the Occupational Pensioners' Alliance. It will be officially launched in the Spring. It must be stressed that this in no way affects AESP's present constitution and setup. We are affiliated to the new organisation for clout purposes and for mutual support in their and our campaigns. We may, of course pay something towards OPA's costs.

Northern Pensions Conference 2003

Dave Laws and Mike Moriarty attended this major national conference. Dave Laws reports.

The Plenary speakers showed the high standing of this conference. Peter Atkins from the Department of Work and Pensions had the unenviable task of selling the White Paper on Pensions that included the notorious proposal to limit pension rises to a maximum of 2.5%! Other prominent speakers were Malcolm Mclean OPAS chief executive and Sam Smith from OPRA. Oliver Heald MP, then Shadow Minister for Work and Pensions, made plenty of promises - but then he couldn't he.

Conference workshops covered many instructive topics, "Current legal issues", "Issues for new trustees", "Scheme closures : trustees role", and " What makes a good occupational pension scheme" by our friend Bryn Davies of Union Pension Services, were just some examples.

The conference provided an opportunity to have an informal meeting with David Simpson President of Prospect and Fiona Draper Pensions Officer and discuss emerging ESPS issues. We were listened to sympathetically and a degree of understanding was reached that augers well for the future.

We took along 150 copies of our "AESp NEWS" and these were eagerly picked up by other delegates so we gained some significant publicity for the Association.

Pension Books

If you use a pension book to collect your pension, there are some major changes which will affect you. The Government has decided to phase out the pension book. You will be asked to choose from three different ways of getting your money, called direct payment. Your money can be paid into three different types of account:

- A current account
- A basic account or;
- A Post Office card account.

The Pensions Service will write you to everyone concerned. It appears if you don't reply after the second letter you may receive a 'cold call' from by the DWP'. You need to start thinking about it but you don't have to make a decision until April 2005. If you wish to support your local post office then you will need to opt for a Post Office card account.

Help the Aged has produced 'Pension Book Changes Ahead' which will explain the changes in more detail. You can download a copy at http://www.helptheaged.org.uk/AdviceInfo/_pension_changes.htm or get a hard copy of 'Pension Book changes' from: Debbie Smith, Campaigns Manager, Help the Aged, 207-221 Pentonville Road, London N1 9UZ.

Parliamentary Activity

A new All Party Pensions Group was formed in November

Jack Andrews reflects on its first meeting.

The meeting took place in the House of Commons a room with about 30 seats. As 50 people had turned up it spilled over into the corridor outside!. An attempt was made to find another room, but without success.

The Chair was taken by Lynne Jones MP (Birmingham Selly Oak). who welcomed us and asked, in general terms who was present. This elicited that there were seven MPs (not identified) plus Baroness Greengross. Some personalities were identified, including the Pensions Ombudsman and Rodney Bickerstaffe, President of the National Pensioners Convention. Help the Aged and a number of similar organisations were there. Brian Marks, Chairman of Occupational Pensioners Alliance, and several COPAS members were also present.

Roger Turner, Chief Executive of OPA, was invited to speak and extolled the virtues of an independent approach to the pensions crisis. Chris Curry of the Pensions Policy Institute, gave a rather detailed account of his organisation's research capabilities; which included setting up various computer models against which possible changes to pension legislation/taxation could be measured. - I would paraphrase his unit as something similar to the Low Pay Unit.

The audience were then invited to ask questions. Most were related to the inadequacy of the national pension, its means testing and to a new approach, whereby all the additions should be aggregated and an adequate new basic pension derived from the result. This was certainly Rodney Bickerstaffe's strong line. I said the proposed 2.5% cap on RPI was unacceptable, that pensioners did not accept RPI as a true measure of inflation and that what was needed was parity

with wage rises. Lynne Jones responded that the 2.5% cap was a measure designed to keep failing DB schemes afloat.

At a late stage in the proceedings, one questioner made the point that little had been said about occupational schemes and he hoped they would not be forgotten!

In concluding the meeting, Lynne Jones said that the intention to form a new Group "had to be reported". My overall impression is that this will not be a Group with occupational pensions at its heart. However, it deserves our support and maybe we will be able to offer some helpful suggestions on behalf of occupational pension scheme members.

What is an all party group?

All-party groups are regarded as relatively informal compared with, for example, select committees of the House of Commons. The membership of all-party groups is mainly comprised of backbench Members of the House of Commons and Lords but may also include ministers and non-parliamentarians. Groups flourish and wane according to the interests and enthusiasm of Members.

The following early day motions have been tabled

EDM 549 POST OFFICE AND PENSION BOOKS Alan Meale

“That this House recognises and supports the view of the National Pensioners convention, which believes that senior citizens should be allowed to continue the practice of using pension books as a mechanism of withdrawing state pension from their local post office.”

[So far has 42 signatures]

EDM 200 OCCUPATIONAL PENSIONS Kevin Brennan

“That this House acknowledges the plight of workers who have lost their final salary occupational pensions schemes through company insolvency despite being promised by firms and successive governments that their pensions were guaranteed and in many cases having been compelled to join their scheme as a condition of employment; further believes that the Government has a moral and possibly legal obligation to help those workers who have been stripped of their pensions through no fault of their own; and further calls upon the Government to introduce legislation to compensate victims of this singular injustice.”

[So far has 240 signatures]

627 ADEQUATE PROTECTION FOR PENSIONS Frank Field

“ That this House, while welcoming the Government's Pension Protection Bill, and the security it will give to occupational pensions once the Bill comes into force at some future date, notes that tens of thousands of citizens who were compelled by law to belong to their company's pension scheme, and who have lost all or part of their pension entitlement, will be given no recompense at all; and calls on the Government to allow an amendment to the Bill so that this substantial group of citizens is fairly compensated from funds gained by levying unclaimed assets in banks and building societies.”

[So far has 4 signatures]

Bickerstaffe says Pensions Bill is welcome but too little too late

Rodney Bickerstaffe, president of Britain's of the National Pensioners Convention (NPC) <http://www.natpencon.org.uk/> – claims that the new Pensions Bill entitled Simplicity, Security and Choice failed to address the central problem facing existing and future pensioners of an inadequate basic state pension.

Mr Bickerstaffe said: “The government is spending a lot of effort on shoring up the private pensions industry without getting to grips with the real problem of a declining state pension and all the evidence shows that today's workers are destined to be in a worse position when they retire than today's pensioners unless the basic state pension is improved. Unfortunately, this Bill doesn't even mention it.”

“It is right that workers who have paid money into a company pension scheme do not lose out if that scheme goes bust, but the Pension Bill still offers nothing to thousands of workers who have already been hit. For many it will be too little too late.”

“The Bill also emphasises the need to clarify the private pension system to enable individuals to make informed choices about their retirement, but none of this puts a single extra penny on the state pension that millions of people will rely on when they reach 65.”

“Plans to prompt workers into deferring their state pension for five years in return for a lump sum payment are also more spin than substance, as only four out of 10 men and seven out of 10 women will live long enough to make it worthwhile.”

“But millions of existing pensioners will be angry that the indexing of company pensions at 5 per cent is to be slashed to just 2.5 per cent. One in five older people already live in poverty and this will force more of them – both now and in the future – to be reliant on means-tested benefits.”

A Reflection

14 years ago the ESPS was split into groups as a result of the Inland Revenue's insistence that one group must not in be a position to subsidise another. How times change. Now the Government wants all pensions funds to protect the least able.

Why not restore the ESPS as a single entity? This would ensure there was no chance of a group failing and being unable to honour its promises. It might also restore equity! The

industry always used to self-insure. Why does it not do so again?

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