

The Council members look forward to your continued support and interest. We wish you all a very happy New Year.

For those members who pay their subscription by cheque a reminder that 2007 subs are now due is enclosed. Why not complete the standing order? This saves us time to concentrate on the important issues and not just admin.

## Annual Increase from 1 April 2007

This Year's pension increase for members whose pension has been in payment for a whole year is 3.6%.

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

If you are on the web why not sign the Downing Street petition regarding inheritance tax. <http://petitions.pm.gov.uk/ihtcrusade/> For most, IHT is an immoral form of taxation that penalises hard work and thrift and taxes your main asset, the house, simply because property prices have risen. It creates distress for families already suffering the pain of bereavement. Send the PM/Chancellor a message.

## Good News!

FOUR members of the Pensions Action Group have won their High Court judicial review against the government.

The Court ruled in favour of the pensioners who sought review of the government's decision to reject the findings of the report produced by the Parliamentary Ombudsman.

The Court ruled that the government was guilty of maladministration by providing inaccurate information about the security of final salary pensions which misled people into believing their pensions were safe when they weren't. In addition, the Court agreed with the claimants that the government's decision to reject the Parliamentary Ombudsman's finding of maladministration was unlawful and that John Hutton, the Secretary of State for Work and Pensions', reasons for rejecting the findings were not reasonable or rational.

The Court decision does not mean that the government must compensate an estimated 125,000 people for their loss but the ruling will intensify pressure over the issue. The Court's decision simply requires the government to reconsider its rejection of the Ombudsman's recommendations to compensate people and restore their full pensions.

The opposition parties see this as a David v Goliath victory but are not keen to confirm that they would pay out. One of problems is the amount involved, variously put at as low £1.7bn by actuaries Mercer, to £15bn by the government. However the DWP told a select committee that full compensation would cost no more than £3.9bn if it wrote a cheque today!

As we have experienced, legal proceedings can be long and arduous, particularly with the sums of money that are involved in this type of pension issue. It is both helpful, but at the same time dispiriting, to know that the government has agreed to pay all the costs of the case and also the costs of *any future appeals*.

Cynically I would say this story has a lot of mileage in it yet unless the Chancellor suddenly sees enormous electoral advantage in meeting the PAG demands before the next election.

## **A New Year Reflection**

The New Year brings an opportunity to wish you all good health and good fortune in 2007. It also heralds the chance to review our role in society, the present position of our individual Schemes, recent events affecting pensioners and the Association's current and future aims and activities.

The national scene is not encouraging. A recent widely published survey report by the Commission for Social Care Inspection has shown that 13 million out of 60 million of us will be over retirement age by 2031. It states that 441,240 retired people were in residential care homes in 2005 of whom 174,000 were paying for a place in their homes. The same Report says that 70,000 pensioners were forced to sell their homes last year to meet residential care costs and that two thirds of councils had now withdrawn free help from all but then most critically sick of pensioners. This report comes on the back of a similar document produced nine months ago by Treasury trouble-shooter Sir Derek Wanless which recommended that massive efforts should be made to help pensioners stay in their own homes and that state spending on this should treble.

These statistics should appal all pensioners. We possess substantial political power, particularly close to election times, and it is up to us to use these powers to show our politicians, trustees and employers that we will not accept either inadequate pension indexation or pensioner care at a lower standard than already exists north of the Border.

The current rate of inflation for pensioners is near 9%. The RPI measured 2.7% increase that we received nationally last year and the 3.6% that we will receive from 1 April 2007 on our national pensions is totally inadequate. How are we expected to keep maintain our standard of living against costs increases of this magnitude.

The December figures show the current RPI figure to be 4.5% and rising. This is too close to the ESPS 5% "cap" for comfort or complacency. The Treasury uses the lower Consumer Prices Index to measure inflation and, whilst this is politically convenient, it is hopelessly inaccurate.

Yet another Report has indicated that pensioners who have saved towards their retirements are now being penalised by having to pay almost the total costs of home and residential care, whereas those who have not made any provision are getting it free! In Scotland such care is free anyway and, as the majority of our senior politicians seem to be of Scottish origin, should we not be asking why this is so?

What can we do about all this? Well, we pensioners can individually and collectively badger our MPs, and ask them where they stand on these issues. We can, and should, try to involve the national and local press by writing letters to the editors. We can similarly ask our Scheme trustees, particularly those whom we elect, where they stand and what they are doing. And, of course, you joined AESP partly for the purpose of representing your interests to the Government, the employers and trustees and we have consistently done this; however, your support is vital. As the ESPS AGM resolution clearly demonstrates, support from less than 2% of our membership does not impress our employers! Remember that, of the ESPS Scheme total membership of 200,000, only 40,000 are active contributors, the rest are pensioners, dependants and deferred pensioners.

One other matter which I might mention is that, during 2006, there seems to have been some attempt to interfere with the ESPS trustee election procedures and with the holding of individual Scheme AGMs. Members should be careful when looking at individual trustee election addresses to note any adverse comments attached by trustees or employers. The Association views such actions as wrong, misleading and unconstitutional. Candidates for election must be free to criticise the previous and current actions of scheme trustees. It is for you, the voter, to make a judgement of the information presented. It is not for other vested interest parties to deflect such criticisms. AESP has referred a current case to the Pensions Regulator and we are awaiting the outcome.

Also, one company has discontinued the holding of a members' AGM after a survey which indicated that only 10% of members would be likely to attend. The homes of our scheme members are widely dispersed and such meetings are the only opportunity for members to raise concerns and to meet their trustees face to face. The Scheme concerned has £2bn of members' assets and 10% represents some 2,000 members, admittedly not all of whom had attended past AGMs. The Association feels that this decision was outrageously hasty and unnecessary. Any public company with that sum of shareholders' cash invested is required to hold a shareholders' AGM so what is the difference between a pension scheme and any other investment organisation which holds members' cash? AESP is awaiting the outcome of representations made by members in this case and may take action when this is known; however, ESPS and AESP members should be aware of it as a possible increasing trend and of the need to resist any such moves.

Obviously, the Association will continue by itself and through our affiliation to the Occupational Pensioners' Alliance, to make all lawful approaches and representations to people, press, politicians and public bodies whenever the opportunity arises. 2007 is a year in which we must all make a stand if our voices are to be heard in the 2009/10 Government elections.

## **A Disappointing Response**

It will come as no surprise that the Companies have given a disappointing, but perhaps not unexpected, response to Jack Andrews' motion about the indexing of our pensions at last October's Scheme AGM.

Inflation, by whatever measurement we choose, is undoubtedly increasing. It was for this reason that Jack proposed a resolution at the ESPS AGM in October that indexation of ESPS schemes should be transferred from the present Retail Prices Index, which does not truly reflect the cost of living, to the national Wages Index, which is more favourable. Similarly, he proposed that the existing "cap" of 5% on such increases within ESPS Schemes should be removed.

It is pleasing to report that some 3,726 of the ESPS's 200,000 members either returned proxy votes or voted at the meeting to support these proposals with 26 against. We would have hoped for more support in view of the importance of the cost of living to the Scheme's pensioner members.

The companies' response has been disappointing. Unsurprisingly, EPL (the electricity employers involved in the ESPS schemes) decided to take no action. They apparently fear that the cost may be between 3 and 4 billion pounds. This has to be compared with a current ESPS total scheme value of £22bn at 31 March 2006.

They have pointed out that, although the present Government had suggested that the national pension would be aligned to wages by 2010/12, this is now likely to be delayed until 2014/15 - or never! (Put not your faith in the promises of politicians!). EPL also points out that the rate "cap" contained in the Pensions Act 2005 is 2.5%, whereas the Scheme "cap" is at 5%. This is itself a significant comment as previously the companies have always been keen to point out that the Scheme has always paid RPI.

With the enormous inflationary price increases implemented by the electricity and gas employers in 2006, what kind of profits are they likely to make when their accounts are produced later in 2007? Are they and their Directors salary increases likely to be "capped" at 2.5 or 5%? Our Scheme trustees must ensure that at least some of this profit is devoted to the companies' past servants without whom the industry would not exist to make such profits today.

You may not realise it, but 2007 is the year in the triennial cycle when our Scheme trustees are obliged to re-value each individual Scheme at 31 March. The Pensions Act 2005 has given trustees greater power to negotiate the schemes' budgets than previously and this can include looking again at indexation and reviewing the cover provided by the Protected Persons Regulations, which will both need to be re-examined in these valuations. It is to be hoped that our trustees will take full advantage of these new provisions, since the Act now allows them to refer any non-agreement to the Pensions Regulator.

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## **Scottish Power and Manweb**

As our Manweb members may be aware Scottish Power the parent company of Manweb is subject of a takeover by Iberdrola SA of Spain.

The deal is almost done and the Manweb trustees will have been working hard to make sure that the Group is on a firm footing in terms of making good the deficit prior to the deal going through.

One major concern for all Scottish Power employees and pensioners must be the limited protection offered in the takeover deal. The offer documents simply says:

“ On completion of the Offer Iberdrola has given assurances to Scottish Power that it will honour the contractual terms and conditions, benefits and existing severance policy of Scottish Power's employees (including pension rights) for at least two years.”

Scottish Power trade union representatives recently visited Iberdrola to speak with management and the Spanish trades unions. Because of the complexities of international company takeover rules they were unable to come away with any firm promises.

## Wide Disparity of Benefits

This table shows the wide disparity of spouses benefits which are paid by the Groups.

This data are based on 2006 information. Your annual pension statement should show the current value of your spouses benefit.

Alfred McAlpine	55.0%
British Energy Combined	56.0%
British Energy Generation	66.7%
Drax Power	56.0%
EA Technology	61.0%
Electricity Association Services	65.0%
EDF Energy	55.0%, 57.5%, 60.0%, 66.7%
E.ON	50.0%, 57.1%, 57.5%, 61.7%, 66.7%
First Hydro Company	66.7%
International Power	58.0%
Magnox Electric	54.3%
Manweb	66.7%
National Grid Electricity	66.7%
Northern Electric	66.7%
Powerhouse Retail	50.0%
RWE npower	50.0%, 58.0%, 66.7%
Southern Electric	50.0%, 60.0%, 66.7%
United Utilities	50.0%
Western Power Distribution	54.3%

## Scheme Group Assets March 2006

	Fund Value £millions	Maturity %	Return %	Equities %	Gilts %	Other %
Alfred McAlpine	60	82	27	75	24	1
Areva	13	n/a	---	---	---	---
British Energy Combined	49	15	28.3	90	10	0
British Energy Generation	2,424	67	23.1	54	25	21
DRAX	68	26	22.6	95	5	0
EA Technology	54	84	18.4	76	22	2
Electricity Association Services	186	99	18.7	41	46	13
EDF Energy Group #	2,289	78	24.4	70	26	4
E.ON UK	4,905	84	17.7	25	67	8
First Hydro Company	43	41	23.0	61	14	25
International Power	79	11	27.1	81	9	10
Keadby (Formerly AEP)*	---	---	---	---	---	---
Magnox Electric Group	1,631	69	22.2	38	50	12
Manweb	683	79	20.7	65	35	0
National Grid Electricity	1,340	79	22.0	61	30	9
Northern Electric	869	73	22.2	52	37	11
Powerhouse Retail	140	100	14.6	30	69	1
RWE npower	3,641	86	15.5	28	61	11
Southern Electric	1,037	78	22.2	0	0	9
United Utilities	1,192	86	22.9	60	40	0
Western Power Distribution	1,206	82	24.0	75	22	3
<b>ESPS Total</b>	<b>21,909</b>	<b>80</b>	<b>20.2</b>			

\* merged to Southern Electric Group 1 February 2006

# Merger of London Electricity and Seaboard Groups 1 September 2005

## Scheme Group Membership March 2006

	Contributors	Pensioners	Dependants	Deferred Pensioners	Total
Alfred McAlpine	98	98	8	351	555
Areva	61	14	---	46	121
British Energy Combined	260	18	7	22	307
British Energy Generation	5,277	6,050	2,281	2,335	15,943
Drax Power	455	97	8	51	611
EA Technology	59	184	10	109	362
Electricity Association Services	7	653	178	396	1234
EDF Energy	4,646	8,952	3,351	4,289	21,238
E.ON UK	7,784	22,612	7,914	10,864	49,174
First Hydro Company	179	76	4	44	303
International Power	399	8	---	40	447
Magnox Electric	3,252	4,710	1,047	1,519	10,528
Manweb	1,543	3,176	1,099	1,681	7,499
National Grid Electricity	2,346	4,852	1,727	2,203	11,128
Northern Electric	1,967	3,275	991	1,166	7399
Powerhouse Retail	---	1,411	75	723	2,209
RWE npower	5,272	18,095	6,829	7,278	37,474
Southern Electric	2,666	5,269	1,867	2,272	12,074
United Utilities	1,550	5,551	1,835	2,228	11,164
Western Power Distribution	2,426	6,553	2,365	2,112	13,456
<b>ESPS Total</b>	<b>40,247</b>	<b>91,654</b>	<b>31,596</b>	<b>39,729</b>	<b>203,226</b>

The above data relate to defined benefit members only.

## Developments in the Pensions Industry

Nationally pensions issues are never far from the headlines, certainly on the financial pages. The Pensions Protection Fund is turning out to be expensive and perhaps not the panacea that the government suggested it would be.

It is all too easy to see changes in the pensions industry as passing us by. We still like to see our pension scheme as stable, enduring and secure. However it is worth considering what is happening in the pensions industry generally and whether or not there is likely to be a major impact on us.

What has happened in our scheme since privatisation? Part of bargaining that went into the privatisation package was the need to split our once single electricity supply pension scheme into a number of parts. On 1 April 1990 there were sixteen principal employers each with its own pension group plus a central service company also with a pension group. Today, as you can see from the table, there are twenty pension groups. The number has been as high as twenty six.

There are national rules made by an employers' group called Electricity Pensions Limited (EPL). Changes of the rules at this level require the unanimous consent of all principal employers. A company called Electricity Pensions Trustee Limited (EPTL) is responsible for the safe custody and administrative control of all the Groups' assets.

Within this framework each group is essentially independent, can make additional rules and its trustees are responsible for the investment policy of its own funds and can decide the benefit structure. No group can subsidise another group.

The results of this independence are clearly visible from our table of spouses/partner benefits. Here we can see how widely this benefit has diverged as a result of independent decisions by trustees regarding the use of the surpluses which were available during the 1990s.

One of the other major changes has been the in the nature of the companies. Their business plans rapidly diverged from what many of us would recognise as the electricity business to become energy companies. Ownership of assets has also changed and we now have international energy companies responsible for a high proportion of the UK electricity business.

With every takeover each new employer finds itself responsible for a section of a two tier pension scheme over which it does not have sole control because of the need to act unanimously in certain areas. In addition a substantial proportion of the pension benefits of its pension group pensioners

are protected by legislation. This can be a bit of a culture shock for directors used to 'absolute' control of pension decisions in other countries. In the past it has led to some comments of dubious legal standing.

There are signs that some employers are getting restless and they would wish for even greater, if not total, independence. One reason is obvious to see companies which have billions of pension assets do not wish to be beholden to companies with millions.

Where could this leave the smaller groups? Depending on your point of view there are new possibilities for the future of our pension funds. For many years only two or three insurance companies would negotiate bulk annuity purchases. In any event the size of the ESPS precluded contemplating a pension buyout. The deficits which emerged at the turn of the century, thanks in large part to the Chancellor's raid on pension funds, also made such buyouts unlikely.

Over the last two years the situation has changed. As can be seen many are becoming of our groups are becoming increasingly mature. There could be a number of attractions to companies to wind up a group and purchase annuities. This could be facilitated by the new companies who have emerged in the bulk annuity buyout market.

Buyouts would solve a number of management issues for the electricity company including transferring administration costs, eliminating trustee elections and appointments, and removing any risk of future deficits. At the moment the national rules only allow small groups of less than twenty five members to be closed by the purchase of annuities. This rule has only been exploited once to close down the ESN group.

A rule change by EPL would be necessary and could be attractive to the large multinationals who would buyouts as a way of breaking down the ESPS and getting control of their own groups pension assets.

One issue of course is that these companies have no track records. Initially they are taking a risk but their expectation is that the assets that they acquire will appreciate at a greater rate than the value of the annuities they need to pay out. That will be their dividend.

Another issue for trustees contemplating such a route is there are no formal rules regarding the process. The success of the new companies is being widely trumpeted but there are a number of cautionary voices suggesting that the buy out route is inappropriate. So even in general terms trustees need to adopt a precautionary approach.

In our two-tier scheme the issues are even more complex. What would pensioners require from a buyout. Obviously we would want as a minimum full RPI protection. This has been the ESPS practice and it was the deal done in the earlier buyout.

A buyout would lose us the protection provided by the Protected Persons Regulations. Does this protection have a monetary value? It is surely not something to cast aside lightly.

Who would monitor the insurance company? There would be no trustees as the relationship would be between the individual pensioners and the insurance company. The past is not always a good guide to the future but it can be a warning. Insurance companies have failed spectacularly in the past with inevitable consequences for the annuitants. We have important legal guarantees. We must be confident that before we lose that protection and convert our pension assets into annuities by selling those assets to a company whose sole purpose is to make money from our assets at our expense.

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## **Oldest pensioners face the highest inflation**

There have been numerous pieces of research which show that pensioners are suffering real income decline as the result of above average inflation on their essential expenditure. The government's basket of goods and services used to calculate inflation certainly also does not represent our pattern of buying.

The most obvious influences on our inflation are food costs, fuel price inflation and council tax. Whilst we all still get £200 per household tax free (£300 if someone is over 80) towards our heating costs proper and relevant indexation of this amount since it was introduced suggests it should be nearer £350.

Research from Alliance Trust shows the rate of inflation facing the elderly is considerably higher than for younger households. The annual update from their research centre found that, over the past two years, inflation facing the over-75s was 46 per cent higher than the official headline rate and 20 per cent higher than that for pensioners aged between 65 and 75.

This higher rate was explained by the fact that older householders spend a far higher proportion of their outlay on necessities, such as food and drink, housing, electricity and gas, which have seen the highest price rises. The elderly do not benefit as much from items in the fictitious shopping basket the government uses - like laptop computers and mp3 players.

Spending on food and drink, for instance, accounts for more than 18 per cent of outlay for people over 75, but just 9 per cent of an under-30s household's average spend.

The research findings show clear differences in the way inflation affects people in various age groups. It was suggested that it was "inappropriate" to link age-related benefits, such as pensions, to a national average for inflation.

Given research of this quality we must be concerned at the government's failure to link pensions to earnings now and worse its decision to put it back to an even remoter date. Our own employers' position in the face of members' views about indexing to wages is naturally even more disappointing particularly as this too would not be sufficient to combat pensioners' inflation.

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## **Why don't we get the full annual percentage increase?**

Every year members over state retirement age notice that they don't get the full annual RPI percentage on their pension. Why is this? Its all very complicated and I can't find a simple way to calculate what actually happens to my own pension.

In April 1978 the Government introduced a 'second-tier' State Pension (SERPS). All employees began earning a SERPS pension (in addition to their Basic State Pension). Our scheme was sufficiently good that the Electricity Council was allowed to contract out of SERPS. This meant two things - we saved money as we got a rebate on our national insurance contribution and our employer also saved money, about 1% of the pay bill, on the employer's NI.

Before it could contract out of SERPS the ESPS had to provide members of the Scheme a pension that was at least as good as the pension they would have received at State Pension Age if the ESPS had remained in the State scheme. This pension is called the guaranteed minimum pension (GMP). The scheme ran until 6 April 1997.

The GMP is payable from state pension age, it is also available to your partner should you die. This guaranteed minimum pension is approximately equivalent to the State pension that you were giving up. The GMP is the amount of pension that the Pension Fund must pay. The calculation of the GMP is complex.

To get some idea of what is involved you need to look at your annual pension statement from the Pensions Service, which arrives around this time each year, and your annual ESPS statement.

You will see that your state basic pension and other additions increase by the RPI. However your additional pension paid based on earnings between April 1978 and April 1997 increases at different, and higher, rate.

Your ESPS annual statement should tell you how much of your pension is GMP. You get no RPI increase on this amount so you have to deduct this amount first to calculate your percentage increase then add it back. But you do get an additional percentage increase on the amount you receive from the Pensions Service.

## **Comment**

**It is clear that pensioners need better pensions to meet the true costs of living as a pensioner.**

I am not into the politics of envy but I can't help thinking that corporate greed has gone too far. According to the TUC leading bosses will receive pensions worth up to 40 times more than those of their staff. A typical director of a FTSE 100 company can look forward to a gold-plated payout of £168,000 a year, more than £3,200 a week. The outlook is very different for their staff who will receive an average of £7,124 a year - roughly just over a fortnight's money for the bosses.

These are of course the same bosses who have been closing final salary schemes as too expensive and replacing them with money purchase schemes. In doing so they are saving their companies 10% or more of the company pay bill and eliminating any risk of future deficit. No wonder remuneration committees are so generous.

Clearly business needs good wealth creators. But they should be rewarded for just that – creating new, real wealth. Not for massaging the balance sheet by simply eliminating costs and trying to tell staff that the new pension arrangements will make it easier for them to be 'mobile'. The government is at fault too. The Chancellor has now extracted over £40 billion from pension funds; £40 billion that would have been invested creatively, if in some cases conservatively. The government's failure to rein in public sector pensions whilst expecting other workers with declining pension benefits to fund these schemes through general taxation is lamentable.

In spite of all the tinkering the pensions time bomb is not only ticking, I suspect the ticking is getting louder.

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

The Objectives of the Association are:

- to represent the interests of existing and former employees in the electricity supply industry in England and Wales and their dependants who are, or were, participants in the electricity industry's final salary scheme – the Electricity Supply Pension Scheme.
- to restore equity in the treatment of the pension benefits of existing and former employees and Board members across the pension groups of the ESPS
- 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 Scheme
- 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.

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## Are you getting all you are entitled to?

It is well research fact that pensioners do not take advantage of all the help, financial and other, that is available.

Much of the assistance is there as a right and is not means tested. Don't miss out.

Help the Aged has many helpful tips. These are accessible at: [www.helptheaged.org.uk](http://www.helptheaged.org.uk)

**Claim attendance allowance.** This is a non-taxable, non-means tested allowance paid weekly at two rates £41.65 for day or night care and £62.65 if you need care by night and day.

**Make an NHS claim** If you have to go into a nursing home make sure you get an NHS contribution towards your fees. This applies even if you are only staying for a short period, for respite say.

**Council Tax** Don't forget to claim Council tax exemption if your property is left empty while you move into care and it takes time to sell the property.

**Split Joint Accounts** Don't pay for care from a joint account. In order to get maximum support split joint accounts into separate single accounts.

**Reduce your Council Tax Bill** If you live alone, make sure that you are getting the 25% discount.

**Enduring Power of Attorney (EPA)** – Consider making out an enduring power of attorney. This is a powerful legal document so take advice before so doing. The Public Guardianship Office provides guidance and the forms. ([www.guardianship.gov.uk](http://www.guardianship.gov.uk))