

In this issue

The Annual General Meeting will be held NATFHE 27 Britannia Street (off Grays Inn Road) Kings Cross London WC1X 9JP on Thursday 7 July 2005 at 14.30. We have invited as our guest speaker Tony Allen Secretary of the ESPS who will look at some of the latest issues affecting the Scheme.

- About our Scheme
 - Scheme Valuations at March 2004
 - Scheme Deficits at March 2004
- Repairing the Deficit *Jack Andrews reflects on the issues which have faced trustees.*
- Luke warm support for a higher state pension
MPs don't see pensioners' problems
- National Pensioners' Convention Carries on Campaigning
The Pensioners' Manifesto
- A Year of Non Delivery
Illusory promises by government
- Confirming what we experience
Pensioners' costs inflate at a higher rate than the average consumer
- The Pensions Regulator
- AGM Notice

Reminder – Subscriptions for 2005 are now due. £10.00 to AESP PO Box 64 ASHTEAD KT21 2YS.

Thank you to members who paid by standing order in March

About our Scheme

The Scheme valuation on 31 March 2004 showed total scheme assets of £17.21 billion. The ESPS as a pension scheme is the fourth largest in the country. Some of the individual groups, particularly when the relevant companies money purchase schemes are added, are large enough to feature in the top 100 pensions schemes nationally.

Since the 2001 actuarial valuation of all pensions schemes had been hit by the falling value of the equity markets and the falling interest rates. Most schemes have seen the actuarial surpluses turn into deficits. The actuarial valuation of the ESPS deficit was £3.03 billion. This sounds an alarming amount and represents 17% underfunding. The calculation of the scheme assets and the liabilities is a formulaic process based on a number of assumptions including the rate of investment return with respect to salary increases, the accrued benefits of pensioners and former members and the accrued benefits based on service completed for active members.

What does the deficit really represent and how alarmed should we be? For one thing it does not mean that pensions currently in payment are at risk. The shortfall will of course need to be made up so that pensions due thirty or forty years hence can be paid. From the companies immediate standpoint it represents a liability which must now be shown in one form or another, depending upon the accounting standard used, on the balance sheet. Not good news for shareholders

Making up the deficit and over how long is of course the issue which has faced the trustees and the companies. Bear in mind that from the trustees standpoint the deficit represents a significant loss of investment potential. Investment opportunity which will be missed and will prevent trustees from improving the real value of our pensions.

Deficit repair decisions are made on the basis that the fund is ongoing. One option which is sometimes canvassed is the purchase of annuities for members on the open market. It is a fact that the sum required to purchase of annuities would be significantly greater than the current value of the fund by a margin much larger than the deficit calculated on an ongoing basis. This would therefore be an even greater burden on the companies. Perhaps more relevant however is the fact that the market could not sustain the purchase of annuities by even one of our smaller groups even if the company was willing and able to fund the cost.

Jack Andrews explains in his article how trustees have been negotiating on how to recover the deficit and over what timescale.

Electricity Supply Pension Scheme – Group Statistics March 2004

	Maturity %	Return %	Fund value £1,000s	Equities %	Gilts %	Other %
AEP	4	26.80	46,000	100	0	0
Alfred McAlpine	52	23.50	44,000	75	25	0
AREVA (1 Jan 2004)	9	---	502	(a)		
British Energy Combined	9	28.90	31,000	90	10	0
British Energy Generation	69	22.10	1,788,000	66	24	10
Drax Power	24	23.00	43,000	100	0	0
EA Technology	83	23.50	44,000	76	22	2
East Midlands Electricity	89	20.00	817,000	51	33	16
Edison Mission Energy	36	27.80	30,000	82	9	9
EA Services	99	16.20	162,000	39	48	13
ESN	100	6.60	325	0	95	5
International Power	7	27.10	46,000	80	10	10
London Electricity	74	23.50	1,067,000	70	30	0
Magnox Electric	66	27.00	1,207,000	67	25	8
Manweb	79	22.70	530,000	65	35	0
Midlands Electricity	83	17.00	848,000	43	56	1
National Grid	79	20.60	1,107,000	61	31	8
Northern Electric	73	20.80	678,800	61	29	10
Power Gen	89	19.30	1,252,000	50	50	0
Powerhouse Retail	100	11.20	125,000	26	73	1
RWE Innogy	87	13.80	3,251,000	27	68	5
Seaboard	84	20.90	686,000	60	31	9
Southern Electric	80	21.30	770,000	56	38	6
TXU Europe	96	22.60	791,000	62	28	10
United Utilities	81	20.00	879,000	65	35	0
Western Power	82	24.00	969,000	75	22	3
Yorkshire Electricity			(b)			
TOTAL			17,211,827			

a) Awaiting transfer of funds

b) Amalgamated with Innogy Group June 2003 to form RWE Innogy

ESPS deficits 2004

	£ 1000s
AEP	13,700
Alfred McAlpine	9,100
AREVA	In surplus 900
British Energy Combined	8,800
British Energy Generation	375,800
Drax Power	20,400
EA Technology	10,800
East Midlands Electricity	93,000
Edison Mission Energy	5,400
Electricity Association Services	8,200
ESN	100
International Power	7,400
London Electricity	216,700
Magnox Electric	148,400
Manweb	132,200
Midlands Electricity	125,200
National Grid	271,500
Northern Electric	190,300
Powergen	229,400
Powerhouse Retail	4,400
RWE Innogy	136,000
Seeboard	154,000
Southern Electric	275,500
TXU Europe	281,500
United Utilities	113,900
Western Power	195,300
TOTAL	3,026,100

Repairing the Deficit

Jack Andrews reflects on the issues which have faced trustees.

As we progress into 2005 your Association Directors have been occupied with monitoring the various scheme deficits revealed by the 2004 revaluations and, more importantly, the employers' responses and the repair arrangements. The ESPS Scheme rules only permit the trustees to "make recommendations" to employers about the period and phasing of the repairs to deficits but the employers are obliged to make good all deficits. Several factors come into play here; OFGEM, which controls consumer electricity prices, has agreed to allow the scheme deficits to be recovered in the company tariffs – but over an extended period of 12/13 years. Mostly, employers have opted to repair the deficits over this period also. However, the effect is that most schemes will be underfunded for this long period unless there are remarkable gains in the stock markets or AAA rated bond yields improve.

Scheme trustees have "recommended" several ingenious ways of protecting members from these problems, ranging from the employer taking out a bond or making a lump sum payment to allow immediate repair, to negotiating early warnings of commercial turmoil in the employing company. Unfortunately, most employers, if not all, have opted for the 12 year repair period.

On a brighter note, the Scheme's equity investments have improved substantially with rises in the FTSE index but these appear to have been more than outweighed by the reductions in Bond yields. The significance of this is that the scheme Actuary measures the value of scheme liabilities by the cost of purchasing Bonds to cover the liability. A drop in Bond yields increases the value of liabilities. (There has been some recent modest recovery in bond yields but not enough to be of significant help.) All in all, the trustees have been on a hiding to nothing; they have, in most cases, worked very hard on our behalf but the results do not reflect this.

The distant horizon will need to be monitored carefully. In the times of surpluses, which we enjoyed in the 1990s, watching the employer was more about persuading them to release the maximum amount of surpluses. In the future it will be necessary to scrutinize employers' actions to ensure that schemes can meet their present and future obligations. One can, of course, make too much of the present deficit situation; on the other hand AESP's main purpose is to make members aware of realities which may or may not be overemphasised at Scheme AGMs.

Originally, one of AESP's principal aims was to encourage the reestablishment of a combined scheme with a unified standardised benefit structure. Regrettably, this has not been possible and we now have a considerable benefit gulf between one scheme and another – particularly in widows and spouses pensions. In times of Surplus it is possible to improve such benefits but it now seems unlikely that employers will permit surpluses to arise in future, at least for some time to come. Of course, in the past, some improvements have also been made as a “quid pro quo” when two or more schemes have been merged. Trustees have been able to negotiate such deals as part of the package. I fear such deals will be fewer in future, as employers plead their increases in contributions.

However, we should not forget that employers' profit and loss accounts have benefited greatly from the surpluses in recent years; if they do not pay contributions the money can be distributed to shareholders or spent elsewhere in the business. Also, although they may have to pay some back in deficit repairs, they will still recover it in prices so they will still retain most of their financial gains in the long run.

Rumours abound that at least two of our schemes are likely to merge in the next few months and it is almost certain that members will see no benefit increases as a result. AESP does not support such mergers unless some benefit accrues to members and members are given the opportunity to consent to the changes. The scheme rules do permit mergers without members consent and we expect to see this being increasingly exploited by employers in the future.

Our pensions are, for the vast majority of us, our principal source of retirement income; we expect to be consulted when any major change takes place, after all, we have recently gone to war allegedly to protect democracy abroad and we must therefore demand that it applies equally at home.

This year particularly, the Association strongly recommends all our members to attend any AGMs or other pension meetings organised by their individual schemes; if members do not show their interest they risk the employer taking advantage of such complacency.

Individual company Scheme trustees will have received from their Actuary the final Report on the 2004 revaluation of their scheme. It is available to members on request and I hope that as many of you as possible will ask your Scheme Administrator to send you a copy. You should read it carefully; it gives details of your scheme funding, the current level of assets and liabilities and the extent of the deficit. It will also tell you in detail how your employer plans to repair the deficit and over what period your scheme will remain underfunded. You may not feel entirely comfortable with what you read.

Finally, when all the Reports are available, and provided we can obtain a copy of each Report from members, (because the Association cannot obtain these reports directly from the Scheme Administrators) AESP will consider them and, hopefully, “make recommendations” to the appropriate authorities. We all have a part to play here, trade unions, pensioner associations, trustees and individual members. We, of course, are doing our bit!

The two documents you can request from your Scheme Administrator are:

“Final Actuarial Report for Re-evaluation of Funding”

and

“Schedule of Contributions”

Luke warm support for a higher state pension

As we are all too well aware MPs took great care in the last Parliament to secure improved, guaranteed, pension benefits for themselves. Their respect for others in their retirement is perhaps less certain.

According to National Pensioners Convention (NPC) politicians showed considerable apathy for the issues surrounding pensioners. Only a quarter of all candidates in the General Election chose to respond to the questionnaire sent round by the NPC. Of those that did respond under half supported a higher state pension. This does not say much for our MPs (or potential MPs) concerns for 20% of the population. Support for a higher pensions was strongest amongst Liberal Democrats followed by Labour and then the Conservatives.

Early Day Motions

Another test of political awareness of the needs of pension funds and pensioners is the early day motion. We have in the past drawn your attention to several of these and encouraged you seek your MPs support.

So far this session there are 157 EDMs, plus some amendments, with a catholic range from congratulating Didcot Football Club to Climate Change Policy but nothing on pensions issues. Ah well!

NATIONAL PENSIONERS' CONVENTION CARRIES ON CAMPAIGNING

The election of a Labour government on May 5, with a considerably smaller majority, now means that older people must step up their campaigning activities and continue to put pressure on local MPs for a change of direction on the key issues of state pensions, health and long-term care, nationwide free travel and the replacement of council tax according to the NPC.

Joe Harris, NP General Secretary said: "The election has come and gone - but the concerns of Britain's 11 million pensioners still remain. The creation of a Pensioners' Charter will ensure that all politicians start getting the message that pensioners deserve to live in a warm and comfortable home, free from fear of poverty and receive all the care and attention they need regardless of their income."

The NPC will be following up its Pensioners' Charter being launched in June by a national lobby of MPs in September and a series of local, regional and national protests.

The Convention has worked hard through all its supporters to promote the Pensioners' Manifesto over the last few months. Despite the major parties' desire to sideline the issue of pensions during the election campaign - the nationwide network of contacts was able to put the issue directly to the local candidates.

The NPC will be carrying on its campaign for dignity, security and fulfilment in retirement for all.

Six key demands in the Pensioners Manifesto

The key demands in the Pensioners' Manifesto are as follows:

- £105 a week basic state pension to all men and women.
- The basic state pension to rise every year in line with average earnings.
- Free long-term care.
- Free nationwide travel.
- Replacement of council tax with a fairer system based on the ability to pay.
- Abolition of age discrimination in the provision of all goods and services.

A Year of Non Delivery

The Pensions Act 2004 finally made the statute book. It appeared to offer much to correct the inequities of pension law but much was hype and illusion.

Many members and pensioners of pension schemes in other industries such as steel, shipping etc. have seen their schemes being wound up by the employers. Some employers have cited the costs as being too great; others have simply become insolvent. In such cases there has been insufficient money in the pension schemes to meet all the liabilities. Until the beginning of this year, the law only provided that the first call on any resources in a defunct scheme should be the pensioners. So, some serving members with, say 30 years' service and due to retire in a few weeks' time did, in fact, find themselves either without a pension at all or with a much smaller pension than they had been "promised" – in spite of having made contributions to their scheme during their working lives.

The Act sets up a compensation scheme for future cases, but totally ignores the past cases. The compensation scheme (PPF) has, of course, to be financed and the ESPS like other ongoing schemes will have to pay a per capita levy to provide the PPF. This will add to scheme costs which have already be increased by the Chancellor's earlier of steal of £5 billion per year from pension funds; £35 billion so far.

As the law now stands when a solvent employer winds up its pension scheme, the deficit and any outstanding employer contributions due become a debt liability of that employer. This obviously is an attempt to reduce future closures but it begs a number of questions. The employer is permitted to plead economic reasons – the fact that he may be bankrupted or have to go into liquidation for example. The employer can still reorganise his business structure and thereby avoid his responsibility. So once again the promise lacks reality.

The Act promises that the PPF will provide 90% of a protected pension. But the Act gives the Secretary of State power to amend nearly all the compensation provisions and the 90% may not stay at that value for long if demands on the PPF become too onerous. In theory no compensation whatsoever could be payable.

Another intriguing aspect of the years' pension promises was the announcement that you could defer taking the state pension and be rewarded either with a subsequent higher weekly amount, as now, or get a lump sum. Great! Of course everyone knows that pension lump sums are not taxable. Ah, but not this one!

The government is now trying to explain that the lump sum will be taxable but taking it will not affect other benefits which might be lost if your assets are too large. It is also trying to explain that tax on the lump sum will not increase your marginal tax rate in to a higher band.

Only one definite pension promise emerged in the last year and guess who it benefits. MPs have enhanced their guaranteed pension plan sound in the knowledge that it the taxpayer who will bear the cost.



"...and this is the day room. Of course, everyone's out at work at the moment..."

with acknowledgements to 'Private Eye'

Confirming that what we experience is fact

Once upon a time state pensions were increased each year by the rise in salary inflation. The conservative government broke this link in the 1980's and replaced it with a link to price inflation. Salary inflation is generally 1% to 3% per year higher than price inflation.

Many people campaign these days for the link to be restored but government claims that the financial pressure on the state pension system is already so high that restoration of the link with earnings would only worsen the situation.

It can be hard to imagine how a few percent here and there can make so much difference. However if the state pension was linked to salaries rather than prices then it would be expected to be around twice the level it would otherwise be after only 35 years! That's a pretty big difference, don't you think?

It is clear that pensioners feel that they should benefit from a higher rate of indexation than the RPI index. Much of what we need, we must pay for and acquire certainly seems to increase in cost at a much higher rate than our pensions. Recent research certainly seems to confirm our personal experience, or what we all suspected but were unable to prove, that retired people suffer more from the effects of inflation than the average consumer.

A research project by the Alliance Trusts* into the relationship between age and inflation has found that:

- Inflation rises with age – on average in the last two years the inflation rate of the oldest households run by the over-75s was 67% higher than that of the youngest households (under 30s).
- In every month of the two years studied (2003 and 2004) homes run by people of retirement age (65+) faced higher inflation than those of working age.
- The biggest difference between the oldest and youngest groups was in April 2004 when the inflation rate for homes run by over-75s was more than 136% higher than that for homes run by under-30s. The smallest difference between the two groups' inflation was 28% in March 2003.
- The oldest households' average inflation was 36% higher than the average experienced by all households.

- The findings suggest that it might be inappropriate to link age-related benefits to a national average for inflation.

So let us target a revised index for pensions, perhaps one that matches salary and wage inflation. It would certainly mean that pensioners would be sharing to greater extent in the real economic wealth of the nation.

The Treasury would not be a loser because tax revenues (and hence the money needed to pay pensions) would rise and reduce the need for means tested benefits. If we look at the national cost of providing means tested benefits there is an even stronger argument for eliminating such needs by increasing the standard rate of national benefits and making a saving in the cost of the public servants whose function it is to run the means tested benefits.

* Alliance Trust is a Scottish based fund manager with assets of more than £2 billion

Males Live Longer

Male life expectancy is much higher than originally estimated, pension researchers have said. The Pensions Policy Institute (PPI) said life expectancy for unskilled and professionals has been understated. Life expectancy at birth is 71 years for a manual worker and 79 years for a professional - a gap of eight years.

But if measured at age 65 instead, the PPI said, a manual worker will live to 81 years and a professional worker to 86 years - a gap of five years. The PPI's estimate is higher because it excludes people who have died before they reach 65 years of age and also takes into account ongoing improvements in life expectancy.

The Government has ruled out raising the state pension age, it says it would penalise lower-skilled workers who generally have lower life expectancies.

Women on average have longer life expectancies than men.

The Pensions Regulator

The new Pensions Regulator created under the Pensions Act 2004 came into being on 1 April. The Regulator has wide-ranging powers.

The Pensions Act 2004 gives the Pensions Regulator (TPR) a clear set of objectives:

- to protect the benefits of members of work-based pension schemes;
- to reduce the risk of situations arising that may lead to claims for compensation from the Pension Protection Fund; and
- to promote good administration of work-based pension schemes.

Employers and **trustees** have to tell the Pensions Regulator without delay about certain notifiable events. These are specific events, relating to a scheme or an employer, which are likely to have a major impact on the security of members' benefits - for example, a significant reduction in scheme membership.

In order for the Pensions Regulator to reduce the risk of calls on the Pension Protection Fund it is essential that the Pensions Regulator receives early warning of problems with schemes or employers that could, potentially, lead to claims for compensation.

The Pensions Act 2004 introduced 'notifiable events'. These are specific events about which employers **or trustees** are required to notify the Pensions Regulator. Broadly speaking, they are events, relating to a scheme or an employer, which are possible indicators of difficulties with a scheme's funding, an employer's insolvency, or an employer's commitment to its pension scheme.

The requirement to notify these events gives the Pensions Regulator the opportunity to help schemes and employers get on the right track before a call on the Pension Protection Fund becomes inevitable. The advantages of this approach are seen as:

- members of schemes diverted from the Pension Protection Fund will receive their pension benefits rather than the potentially lower levels of compensation available from the fund;
- the levies payable to the Pension Protection Fund will be kept lower than they otherwise would be; and
- fewer calls on the Pension Protection Fund are likely to result in greater confidence amongst members of work-based pensions.

Only schemes eligible for entry to the Pension Protection Fund are subject to the notifiable events requirement.

Scheme funding

The Pensions Act 2004 introduces the statutory funding objective, which is due to replace minimum funding requirement (MFR) from September 2005.

Under the new funding regime, schemes must demonstrate that they have sufficient and appropriate assets to cover their 'technical provisions' (the amount required, on an actuarial calculation, to provide for the scheme's liabilities).

The principal responsibility for implementing the new requirements lies with the trustees. However employers and the scheme actuary must work together with the trustees because the employer's agreement will be required on a number of issues. Employers and trustees are expected to work together in developing an appropriate funding strategy for their schemes; where there is a shortfall, a recovery plan and other details must be submitted to the Pensions Regulator for review.

Where employers and trustees, having explored all avenues, are still unable to come to agreement on scheme funding, The Pensions Regulator may intervene in a number of ways with the aim of achieving a successful outcome.

The Regulator can:

- impose a schedule of contributions specifying rates of contributions from the employer and active members.
- direct how the scheme's technical provisions are calculated, and specify the period over which any shortfall must be made up.
- in order to ensure the employer's continuing support for the scheme has the option of modifying future benefit accrual.

David Blunkett offers no comfort

The new Secretary of State for Work and Pensions, David Blunkett, is reported to have told the recent National Association of Pension Funds conference that the abolition of advanced corporation tax had played no part in the problem of scheme deficits. Blunkett said the Tories should stop criticising the removal of ACT. He said the tax was no worse than the pension mis-selling scandal of the early 1990s.

Just a thought but people who could prove that they were mis-sold a pension were able to extract compensation. Does that mean that Blunkett is going to use part of social security budget to reimburse pension schemes. Highly unlikely I would think!

ASSOCIATION OF ELECTRICITY SUPPLY PENSIONERS

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The Eighth Annual General Meeting of the Association will be held at the NATFHE 27 Britannia Street (off Grays Inn Road) Kings Cross London WC1X 9JP on Thursday 7 July 2005 at 2.30 p.m.

Light refreshments will be available from 2.00 p.m.

Special Guest Speaker

Our Speaker this year will be Tony Allen Secretary of the ESPS

Reports

- 1 To receive and consider the Chairman's Report, the Accounts for the year ending January 2005 and the Fund Examiner's Report.
- 2 Developments in the ESPS

Resolutions

- 3 To authorise the Council to appoint a Fund Examiner and to fix the remuneration.

Election of Council

The members of the Council are: Mr Jack Andrews, Mr Basil Cooper, Mr Ben Flude, Mr David Laws, Mr Gordon Lewis, Mr Mike Moriarty, Mr Harry Sharrock, Mr Colin Wooff, Dr Neville Wrench.

4. Mr Sharrock and Dr Wrench retire by rotation and offer themselves for reappointment. Mr Cooper is resigning at the meeting have served two terms as a member of Council.

Any other nominations for Members to serve as Council Members should be sent to me at the address below to arrive no later than 29 June. The maximum number of members of Council is eight. Nominations must be signed by the person proposed certifying his or her willingness to be proposed. The nominee and the proposer must be bona fide Members of the Association.

Any Member entitled to be present and vote at this AGM may appoint a Proxy to attend and vote for him/her. The name of any Proxy so appointed should be addressed to me at the Association of Electricity Supply Pensioners at the address above so as to be received no less than 48 hours before the holding of this AGM. Otherwise the person so named shall not be entitled to vote at this AGM.