

# **The Association's Response to the Green Paper**

## **“Simplicity, security and choice Working and Saving for Retirement”**

**Cm 5677 December 2002 (The Green Paper on Pensions)**

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## **Executive Summary**

This summary merely highlights some of the major problems as we see them. The Association's detailed recommendations and comment on the Green paper are set out separately. This summary is not intended to be read as a substitute for consideration of our detailed response.

### **The shift from DB to DC schemes**

We do not agree with the Government that this shift is not a matter for concern and recommend the solution to be statutory backing for greater emphasis on the proper funding of occupational pension schemes by employers – at least to Discontinuance level. We also draw attention to the very serious effect of the Chancellor's withdrawal of tax credits which is a contributory cause of the current crisis.

It is a fact that pensions arising from DC schemes are at present seriously reduced. Contributors are unable to plan retirement, even in the early stages of their careers, because no guarantee of

pension exists. This is a serious disincentive for people to save. We recommend that some form of guarantee be introduced for DC schemes, if necessary, underwritten by the employer.

## **Working Longer**

We do not support the suggestion that the earliest age for retirement should be increased from 50 to 55 because we do not think that employers will change their present attitude to making older staff redundant. The downturn in the present economic cycle also supports this contention.

We do not support any increase in the normal retirement age beyond 65. but feel that workers should have an option to work longer if they wish to do so, if their employer agrees or they can find employment and if they are sufficiently healthy. There should be no compulsion to work longer.

## **Occupational Pension Scheme Funding Levels**

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We submit that the MFR is an insufficient indicator of pension fund adequacy and must be replaced by a requirement to adopt the Discontinuance measure as an ongoing statutory requirement. We are also concerned about funding at the time of any liquidation and recommend that trustees should have greater power to ensure a continuing proper level of funding in order to minimise this problem.

## **Fund Surpluses**

The European Court has decided that pensions are deferred pay, which appears to make pension funds the property of the members. The Government have previously referred the subject of surpluses to the Law Commission with no result. We are disappointed that no legislation is proposed to define the ownership of funds and surpluses once and for all. Members and pension schemes should have greater support in such matters from the Pensions Ombudsman and additional protection from employers' greater financial ability to litigate. We strongly recommend that the disposal of surplus is a matter for trustees but they must have equal status with employers in such matters – possibly with an independent chairman.

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## **Indexation of Pensions and Survivors' Benefits**

We strongly reject the Pickering suggestion for the abandonment of survivors' benefits. We also recommend that the indexation of all pensions should be reverted to a basis of wage increases in place of the present RPI. We are opposed to the capping of indexed increases at specific levels without proper relationship to some form of national index. We recommend the Government to consider these matters in their deliberations in advance of the White Paper.

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## **Member Nominated trustees**

We believe that member nominated trustees can play a very significant part in preventing another Maxwell-type scandal and that they should have an equal status with employers in the decision making process within occupational pension schemes. We urgently recommend that the numbers of elected trustees should be increased, that parity of voting and numbers etc should be established in Trustee Boards and that the Government should legislate to provide independent chairmen for such Boards.

## **Consultations with Members and Scheme Organisations**

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We strongly support the suggestion that employers be required to consult with trustees before making changes to pension scheme rules or other arrangements. However, "consultation" must mean what it says and any legislation must clearly oblige them to both consult and take into account any representations made. We also recommend that relationships should be established with any related Association representing members. Such Associations have often been established because trustees have been unable to prevent adverse changes and to finance litigation where employers have acted unreasonably. Often, as in our own case, Associations independent of trustees have a truer picture of members' wishes. The members' voluntary financial support for such organisations gives them credibility in negotiations with employers.

## **Compulsory Membership of Occupational Pension Schemes**

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We believe that, if a serious fiscal problem is to be avoided in 10-20 years, as a result of many more workers failing to make proper provision for their retirement, the Government should take a much stronger line than the Green Paper proposes. Some degree of compulsion is required where an employer provides an end salary or DC industry/company occupational pension scheme and is willing to make an adequate and substantial contribution to such a scheme. Employees must be required to join in these circumstances. Other workers will need to make their choice whether to join a stakeholder scheme or to rely on the State scheme. In principle, we recommend that, if the employer contributes, workers should be obliged to join.

## **Trustee payment and Training**

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We are against the payment of member trustees. We believe that this will give rise to the "professional" trustee who is only attracted by the money. We agree that adequate training must be given and that all expenses should be met.

**The Association**

**The Current Pensions Crisis**

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## Conclusion

### **The Association**

1 This Association represents some 207,000 members of the Electricity Supply Pension scheme, together with a significant number of other employees who are members of the various defined contribution schemes throughout the industry, having joined since 1995, when most of the defined benefit schemes were closed to new staff.

2 We were formed in 1995 in the wake of the privatisation of the electricity supply industry basically to address the inequities amongst the numerous individual company based schemes which were created by the Electricity Act 1989. Our scope has widened since that time to encompass the defined contribution schemes which most of the electricity employers have obliged newly recruited staff to join. The poor performance of these schemes and the current under funding of all ESPS schemes, including the defined benefit schemes is the current concern of all our Directors and members.

### **The Current Pensions Crisis**

3 When the Parliamentary Select Committee invited appropriate organisations to submit evidence they asked "is there a pensions crisis?" Obviously there is. Many occupational pension schemes have lost up to 30% of their value in the recent stock market falls; insurance companies are slashing the values of their life and annuity payouts by as much as 50%; UK plc has accumulated a pensions deficit of £120bn by the start of 2003 and the equity market lost £29bn in 11 days trading at the end of January. The recent modest recovery does not significantly alter the "crisis" situation.

4 Standard Life, - the UK's biggest pension insurer - announced in February a further reduction of 15% in their bonuses, affecting some 2 million customers. Norwich Union have issued figures indicating that 25 year £50 a month annuity endowment has reduced in maturity value from £120,000 in 1997 to £70,000 in 2003 – a reduction of 42%.

5 These example statistics and many others prove that, not only do we have a pensions crisis, but also a ticking time-bomb for the future The Green Paper meekly suggests, in the summary (page 2) that the current problems are in four main categories; namely:

people living longer, employers are making less provision for their staff, older people are retiring too early, and financial products are too complicated.

6 There is a fifth reason for concern and that is the Chancellor's withdrawal of tax credits from pension funds which has cost them £5bn a year since 1997 and has not been compensated for in the adjustments to corporation tax. Experts estimate that the Chancellor's attacks on tax credits has cost industry some £50bn since 1997; it has seriously depleted pension fund assets and has created part of the crisis which the Green Paper attempts to resolve.

### **The shift from DB to DC Schemes**

7 Paragraph 11 of the Summary (repeated in para.8 of Chapter 1) says that "whilst the shift from defined benefit to defined contribution pensions may not in itself be a cause for concern, the level of employer contribution does matter". For members of DB schemes this is a matter of extreme concern and for those who have either opted or been forced into DC schemes, the reduced benefits of these schemes are likewise of concern. The solution to this crisis is money. If a future, even more serious, crisis is to be avoided, more finance must be found for the pensions industry generally. This can come from only three sources, namely:

- employers
- employees; or
- the Government, through taxation relief or other incentives

8 It is obvious that many employers are taking advantage of the present crisis to reduce their exposure to pension scheme costs; some have closed schemes to new members, some have liquidated schemes and many have either transferred staff to DC schemes or ceased/ reduced their contributions to such schemes. Some employers have, unfortunately become bankrupt, leaving unsecured debts to their pension funds, thus forcing their closure. This Association's view is that the Government must look both to employers and to the tax system for help in this crisis. The assertion in para.91 of chapter 4 that "The Government will be guided by the aim of not increasing the overall burden on employers providing pensions" is unacceptable. The quality of schemes/ contributions provided by employers varies widely, as mentioned in our preceding paragraph. The unjust tax increase demanded when tax credits for pension schemes were abolished must be restored as part of this review.

### **Fund Levels**

9. It is vital that the MFR be replaced as soon as possible with a more realistic measure of pension fund adequacy. The Pensions Act 1995 is far too lenient on employers who fail to meet their funding obligations . We favour the "full buy-out" suggestion contained in para. 90 of chapter 4. which we describe as "discontinuance level" Anything less than this will only perpetuate the present unsatisfactory position, where employers can increase their pension indebtedness up to the point where bankruptcy occurs and the pension fund is left as an unsecured creditor in the liquidation proceedings .

10. We are unhappy with the suggestion funds in para.75 of chapter 4 that pension funds might form a special new category of creditor in liquidation. It seems unlikely that precedence will be given over the Inland revenue but vital that pension fund debts at least be made preferential creditors in liquidation The Green Paper suggestion for a lower category than this will not do. The argument that trade creditors may lose out is credible but they have the option of whether or not to supply, whereas pension funds do not enjoy this privilege and have no option but to accept the present unsatisfactory MFR arrangement (Pensions Act Sections 56/60) of 90% before the employer can be made to pay what it owes.

11 We do not feel that the suggestion in Para. 78 of chapter 4 for the creation of an insurance arrangement would be practicable. Many insurance companies are currently having to sell equities themselves in order to remain solvent. Their record in recent times for risk taking is not good bearing in mind, for instance, the effect of this year's flooding on premiums and their reluctance to renew policies for those affected. They seem unlikely to accept the heavy risk of pension fund liquidations without heavy premiums, the burden of which may worsen rather than improve the situation at times of investment decline. Para. 78 of chapter 4 also mentions the possible creation of a "centralised clearing house" arrangement but this is only the best of a bad job after insolvency has been allowed to occur. What is needed perhaps is an industry-wide levy to make up any shortfalls. This is no substitute for trustees being required to ensure that employer debts do not accumulate. The setting of the future "MFR" level at "Discontinuance" – fully funded - level would largely overcome the need for such an arrangement or levy.

## **Poorer Pensioners (Chapter 2)**

12 The Green Paper is greatly weighted towards the so called "poorer pensioners" who are frequently mentioned. These are largely first and second tier national pensioners. However, it is a fact that the solution for these people (and perhaps for occupational pensioners also) has been in the hands of the Government ever since the abandonment of the link between wages and pensions in the 1970s. In para.51, it states "the Government's strategy is to focus resources on those pensioners who need them most". Whilst this may be a laudable electoral stance, it totally ignores those large numbers of citizens who have put aside a slice of their income to provide for their retirement and who now find themselves either in a DC scheme with a poor benefit or in a DB scheme with the serious fear that the employer will either close the scheme or wind it up.

13 The longer term fiscal effects cannot be ignored either; if employees are discouraged from saving as a direct result of these factors the national economy will suffer in 10 – 20 years' time when more will become dependent on state benefits. The present Government thinking is too short term.

## **Working Longer**

14 Prolonged longevity is a factor but the Association still strongly support retirement at 65 combined with compulsory contributions to occupational pensions by those in suitable employments. We do not believe that employers will be willing to employ people for longer. Currently, many are offering early retirement at between 50 and 60 and the virtual abandonment of manufacturing together with the current run-down in service occupations

makes this even more likely in the future. The 4% increase in employment between 50 and 65 mentioned in the Paper is probably attributable to the RPI increases being inadequate and is confined to the poorer pensioners in our society who may have no other option. We do not believe that the impact of health factors has received adequate consideration in suggesting an older retirement age.

15 The table in sub-para.4 of chapter 6.1 showing contribution savings which can be made by delaying retirement is somewhat misleading because it appears to include both private and national pensions. The decline in pension provision is an urgent matter which deserves greater action by the Government than is currently proposed.

## **Security of Pension Rights - Actuarial Valuations (Paras. 27/33 Chapter 4)**

16 We welcome the Government's aim to protect members' rights, whilst simplifying the

regulatory regime. However, the proposal to reduce the number of Actuarial valuations from three to one in a three year period must surely be qualified in times, as at present, of investment volatility. It is essential for trustees to be able to seek revaluation at any time when they believe the funds may be insufficient to meet liabilities and this must be done quickly if appropriate action is to be taken

#### **Fund Integrity and Surplus (Paras 37 Chapter 4)**

17 All the assets contained in any pension scheme are there for one purpose only – to provide members with pensions. It follows that the funds must not be owned or administered by the employer otherwise the Maxwell syndrome is certain to return. We are disappointed that the Government is not proposing to decide, once and for all, the ownership of funds/assets and the proper use of surpluses. The integrity of assets is central to the proper management and administration of all pension schemes and, if the Government is serious in its desire to protect the rights of members, this must be addressed.

18 There have been several Court cases in recent years on this subject; the most recent have involved British Airways and, in our own industry, Laws and Mayes v National Power and National Grid, which reached the House of Lords. Their decision was unsatisfactory as it

gave no firm ruling on Fund ownership.

19 Our view is that, whilst the Fund should be the independent property of members and

administered by the trustees with equal division of rights between employers and members; any surplus should only be distributed with the approval of the trustees/after receiving advice from the Actuary and then only in the proportions agreed by the trustees. The Government must legislate in this area of pension management otherwise it is likely to remain a lucrative source of lawyers' incomes for many years to come and this will not benefit pension scheme members or employers.

20 Most of the local and central government employers and some others have, in the past, required their staff to join their industry and Local Authority schemes as part of their conditions of employment. Such requirements have therefore been part of the remuneration package. These employers have also argued that staff should recognise the value of generous pensions when seeking wage improvements. This is surely why the European Court has decided that pensions are deferred pay, which is this Association's strongly held view and which we regard as one of our main recommendations to the Government.

#### **Indexation and Survivors' Benefits (Paras. 44/45 Chapter 4).**

21 The Pickering Report suggested the abolition of these benefits and was met with howls of disagreement from pension scheme members in general We hope that these proposals will be totally ignored by the Government.

22 It is one of the cardinal principles of any life insurance or employment pension scheme that provision is made for survivors, be they wives, partners or children. Some employees are unfortunate enough to die in service before retirement and, unless these benefits continue, this may become a further disincentive for employees to join schemes in future.

23 In the Electricity Supply Pension Scheme, for example, some 10-15% of benefit currently payable goes to dependants who represent a similar proportion of the membership. This demonstrates the importance of these benefits to members.

#### **Indexation (Paras 44/45 Chapter 4)**

24 The suggestion for limiting indexation to those receiving less than £30,000 per annum or less would again be a disincentive for higher earners to join company-based BD schemes

It is presumed that the restriction could not be applied to DC schemes otherwise many more higher earners will simply transfer their savings to offshore investment companies.

25 Indexation per se is not as important as its relationship to costs and wages. The year 2000 fiasco of RPI increases of 75p per week for many pensioners proved the basic electoral

unpopularity and unreality of RPI indexation. In general, pensioners expect their incomes to maintain at least the inception value after retirement and this does not currently happen. Some insurance based pensions are automatically increased by specific percentages each year, commonly 3%; company schemes are governed by Section 51 of the Pensions Act 1995, which allows only increases at RPI level with a maximum of 5% . It must be borne in mind that, inflation is at present rising from its lowest level for many years but RPI figures of 10.9%, 11.0%, 17.7% and 26.1% were reached in 1991, 1982, 1977 and 1975. Against this background the Government' proposal to curb the indexation of any pension appears unreasonable; it would be seen as a further attack on middle earners and act as a serious disincentive to saving in pension schemes,

26 This Association recommends that Indexation should continue, albeit on a more realistic basis than at present. We believe and recommend that future indexation should be allied to the increase in wages nationally and that existing caps on maximum indexation within occupational pension schemes should be removed and that, in future, the maxima for such increases should be related to nationally increased wages.

#### **Member Nominated Trustees (Para. 61 Chapter 4)**

27 Sections 16 and 17 of the Pensions Act 1995 set out the minimum requirements for member trustees of which there must be two if there are more than 100 members and also at least 1/3<sup>rd</sup> of the total number of trustees. Any increase above this number requires employer's approval.

28 The Act is silent on how the member trustees should be selected/elected and this has led to abuse by some employers who have been able to appoint people of their own choice. Employers were originally required to

review the whole question of member trustees after four years but the Government has now extended this for a further four years.

29 In spite of Government efforts in recent years to overcome the possibility of another Maxwell fraud, the present legislation continues to allow the employer to overrule and ignore any objections which member trustees may have to the running of their schemes with the exception of known dishonesty and where an adviser can be persuaded to “blow the whistle” under Section 48.

30 Para 61 implies that the envisaged relaxation in selection processes for member trustees may increase the employer’s powers over the administration of their schemes and over scheme funds. This would be a retrograde step and likely to return pension schemes to the pre-Maxwell era. What is now needed is a requirement for equality between employer and employee trustees, complete independence for scheme funds and independent chairmanship of trustee Boards.

31 We recommend that member trustees should be elected from constituencies decided by the elected trustees acting together, and that as far as possible, their constituencies should reflect the division of scheme members between actives and pensioners. This would, of course, mean that a closed, very mature, scheme with pensioner members only would elect only pensioner trustees. The object of this recommendation is to prevent employers from facilitating the appointment of their own nominees.

#### **Pensions Regulator (Para.66 Chapter 4)**

32 It is not clear whether this official will supersede the Pensions Ombudsman. However, it is important to note that the existing Ombudsman’s powers have been severely limited by the Courts, in that his decisions have frequently been challenged by employers and overturned in subsequent expensive litigation, which most employers are better placed to afford than are individual scheme members. The Ombudsman’s role as “poor man’s lawyer” in pensions matters was recognised in the legislation for his appointment and will, we hope, be continued in any new legislation; however, individuals find great difficulty in pursuing cases into the judicial system because of the costs involved. The Ombudsman at present has no budget or authority to defend his decisions in the Courts and his office is seriously undermined as a result of this deficiency.

33 We hope that this deficiency can be addressed in future legislation. We recommend that, where, in future, the Ombudsman/Regulator’s decision in any matter having relevance to the majority of members in any scheme, is appealed by an employer, litigation by any member to contest the appeal should automatically be financed by the pension scheme involved.

#### **Fair Sharing of Assets (Paras. 69/70 Chapter 4)**

34 Whilst the dilemma highlighted in this section is real and there is a need to look at those members with long service/contribution history who just miss out under the present procedures, we are less sure about placing caps on pensions except in the most flagrant cases of apparent abuse. We do not favour the redressing of the balance between the less and better off. This smacks of private wealth redistribution.

#### **Changes in Employer or Type of Scheme (Paras. 93-8 Chapter 4).**

36 We welcome the Government's commitment to the protection of TUPE transfers on a "broadly comparable basis" for public sector transfers. Transfers of businesses between employers often disadvantage workers and, where the existing employer has been contributing to and employee's pension, it seems essential that the new employer – as part of the transfer/acquisition arrangements – should do the same, whether in the public or the private sector. How else is the Government going to meet its pledge to encourage workers to save for the future?

37 Obviously, employees must contribute to their pension scheme as a pre-requisite to the employer/new employer making a contribution. On balance, we favour the option of requiring the new employer to contribute on a "broadly comparable basis".

#### **Consultations with Employees/Members about Pensions Changes (Paras. 99-104 Chapter 4)**

38 The requirement that employers be obliged to consult with employees and trustees before making changes to pension arrangements is welcome but overdue. However, this must not become some kind of "whitewashing" arrangement, allowing employers to consult and then to totally ignore any or all representations made by members, trustees or pensioner Associations whilst protesting that they have consulted. This would be a fiasco of Maxwellian proportions. (Please see also comments under Member Nominated Trustees in para.26).

39 As an industry Association representing both active and pensioner members of the Electricity Supply Pension Scheme and members who have been obliged by our employers to enter DC schemes outside the ESPS, we have considerable experience of the history, changes since privatisation and of members' opinions/preferences and, in many ways, we are able to fulfil functions which trustees are unable to perform due to the joint employer/trustee nature of trustee boards. Perhaps such an example is the current exercise, in which this Association can comment without being inhibited by the employers' views. We recommend that all occupational pension scheme employers should be obliged to consult with related member Associations, as was originally proposed by Paul Myners when he suggested that the new "transparency" statements should be vetted by such Associations (where they exist) before implementation.

#### **Employer Task Force (Paras. 102-5 Chapter4)**

40 The setting-up of an employer task force to tap into their experience and innovation seems rather one-sided. Surely, trustees and pensioner/member Associations would have equally meaningful contributions to make here. In the electricity supply industry, the trades unions took no part in pensions negotiation until well after privatisation; such matters were handled outside their remit and this may have happened in other industries; the experience therefore lies elsewhere with members and their trustees.

#### **Remainder of chapter 4**

41 Most of the suggestions put forward in the remainder of Chapter 4 for providing greater information about pension schemes are welcome. Unfortunately, the Green Paper also mentions the possibility of reduced benefits: 100ths in place of 60ths and 80ths, spreading the assets according to wealth, changes in the basic calculation of

pensions and the need to work longer and pay more. There is also the Government's declared aim not to compel employers to make proper contributions. These issues will do little to encourage greater saving for the future and may cause the further proposed Government campaigns to fall on deaf ears. We feel that every employee should at least receive an annual combined pension forecast and welcome the suggestion in para.110 for wider consultation in respect of employee information packs.

#### **Compulsory Scheme Membership Paras.120-128 Chapter 4)**

42 Members of the electricity supply schemes have had considerable experience of compulsory scheme membership; most were conditioned by the employer to join the ESPS Scheme from day one of their employment. The benefits of scheme membership cannot be overemphasised and, although younger employees may have preferred at the time to have spent, rather than saved, their money, all come to realise the benefits towards to end of their working lives.

43 If an employer has a good pension scheme we think that compulsory membership should be mandatory, subject, of course, to the employer making an adequate contribution to the scheme at least along the lines suggested by Alan Pickering. Tax concessions have always been allied to the proper management and appropriateness of each particular scheme and, if this is what is meant by a "401k " scheme, then we agree. However, we do not consider that private occupational pension schemes are appropriate fields for social engineering and we would strongly oppose any such attempt.

44 On the subject of compulsory membership, this cannot be divorced from employers being obliged to make contributions. We feel that any delay in requiring all large employers to make adequate contributions to their schemes will only allow the more unscrupulous amongst

them to lower their standards to a minimum on the altar of saving money for their shareholders

45 On the question of employees wishing to opt out of compulsory schemes to join stakeholder schemes, this would seem inappropriate unless the employer provides access to such a scheme as an alternative. If the employer does not provide an occupational scheme for its employees they will have a choice amongst a stakeholder pension, a private insurance-based annuity or the state pension, with the appropriate additional SERPS or other contribution.

#### **Financial Services (Chapter 5)**

46 In the ESI, we have enjoyed successful DB schemes for many years; financial advice has been obtained for our trustees and we have not, until recently, been faced with the problem of second rate DC schemes. Obviously, any simplification of information either by the FSA or the Government can bring about will be welcomed by those unfortunates who are obliged to enter DC schemes and, even more, by those who adopt the stakeholder or private savings methods. However, the overall importance of employer contributions cannot be ignored here. The administration cost of savings are small when compared with a regular employers' contribution.

47 We note the comment in para.27 that "90% of employer designated schemes have employer contributions; no mention is made of the size of such contributions which is a very important factor. The aims set out in para.35 are very laudable but it is likely that an employer will wish to provide access via a restricted number of stakeholder

producing a series of investments outside the normal range which will inevitably be known as the “poor man’s pension”. As such, in spite of efforts to reduce administration costs, such a scheme is likely to attract less income because the package will have to be based on the more secure types of investment and, for less mature members in early service, this would be a disadvantage.

### **Turning Savings into Income (Section 5.2 Chapter 5)**

49 We are not sure that annuities are a financially efficient and secure means of changing capital into pension, as alleged in paragraph 55. Recent history has shown that many annuitants are receiving only half of what they expected by way of pension; the same money invested in a DB scheme would have guaranteed a pension at a specific rate. However, for those who are in this unfortunate position, it will pay to shop around for the best available package and this should be encouraged. None of the options mentioned in this section properly addresses the main problem, which is that individuals need to establish the amount of their pension at an early stage of contributing so as to decide how much to contribute.

50 There is a need to implement some form of guaranteed pension to be provided by an annuity. There are risks for the providers but these can be factored into the policies. This would, of course, imply that a single provider was used throughout both for saving and for the annuity pension.

### **Better Investment in Occupational Pension Schemes (Section 5.4 Chapter 5) The Role of Trustees**

51 Whilst it is necessary for trustees to be adequately trained in their duties, we have considerable doubts about shareholder activism; this can be skewed to include matters of political, environmental and social importance which may have little or no relevance to

the objectives of a pension scheme, its members or its Fund.

52 There is an important role here for the elected/member trustees to perform; it is they who are in contact with members individually and, it is they who, in the event of financial or other difficulty, will be replaced in a democratic scheme. The Government must consider carefully whether the Myners proposal to pay trustees will give rise to the “professional “ trustee who is only there for the money. Such a move would be a serious and retrograde step which would distance members even more from their schemes – which is just the reverse of the Government’s declared aims. We do not favour the payment of trustees (other than for expenses incurred) and we prefer the democratic election of member trustees.

### **Extending the Working Life (Chapter 6)**

53 As we have already said in paragraphs 13 and 14 above, we do not support the suggested increase in the normal retirement age beyond 65 and we deplore the extension of the earliest date for early retirement from 50 to 55. Section 6.5 makes some play of the need for employers to promote work for older people but, in the present economic conditions, it is more likely that a greater rather than lesser number of older workers will be unemployed in future. We do not think the Government is being realistic here.

55 It appears from this section of the Paper that age discrimination in the context of the European Directive equates to a compulsory retirement age. There is no reason now why employers cannot employ people over the age of 65 and we cannot see how any Government can compel them to take on such people unless a quota system is introduced similar to that under the Disabled Employment Act, where they should have 6%. Even this is not adhered to in many cases.

56 With the Government's declared "voluntarist" approach to these matters and their wish "not to increase the State pension age (Para. 51 –Summary) and not to increase the overall burden of employers providing pensions (para.91 chapter4), the only avenue open to improving the numbers of older people employed is taxation and improved allowances/training as with the New Deal, 50 plus and the Working tax Credits It might be useful to research just how many of these recipients do extend their working lives beyond 60/65. As we see it, the only Government "pension" saving here is if people work beyond 65 and if occupational pensioners are allowed to take pension at 55 whilst continuing to work and delaying their national pensions beyond 65.

57 The suggestion of a lump sum payment as an alternative to an increases regular State pension (para.41 Chapter 6), raises other issues; if the lump sum is taken and spent, the pensioner receives no lasting benefit and the "carrot" of increased pension in older age disappears. In the illustration in para.41 the pensioner may even opt for a lower than normal pension - raising the danger of further dependence on State benefits as the cost of living rises.

#### **Occupational Pension Scheme Rules (Para. 63 Chapter 6)**

58 Whilst we agree that Actuarially computed assessment in each case where an employee works beyond retirement age would be equitable, it is essential to ensure that individual pension schemes are not made worse off by such arrangements. The suggestion that the pension of "step down" part time workers be calculated on an equivalent full-time salary but with the accrual rate adjusted to the best year's salary of the last years of employment might reduce the pension overall. A further option should be considered – that of keeping contributions at the higher/existing level and receiving full pension.

59 It should be borne in mind that figures produced in February 2003 show that there are still 9 million current members of end salary (DB) schemes equally divided between public and private sectors and that these and other proposals in the Green Paper will overall affect 25% of the electorate (including associated families etc.).

#### **Women and Pensions (Chapter 7)**

60 In all ESPS occupational pension schemes women are treated equally with men and have the same opportunities to accrue pensions and lump sums in retirement. We would quarrel with the figures quoted in para.1 of Section 7.1, since all ESI pensions have been indexed to RPI during this period and wages have significantly increased above RPI figures in recent years.

61 The example given in para.4 of this section clearly illustrates that, given the choice, female workers have often taken the option of opting out of state contributions. This has implications for the current Green Paper.

## Conclusion

62 Whilst the partnership and voluntarist policies outlined in the Paper contain some advantages, neither is sufficiently robust to tackle the current pensions crisis. What is needed is Government courage to legislate decisively – not to evade the problem in the hope that it will go away; it will not and this may become a future electoral liability. Taking the Green Paper as a whole, we feel that any subsequent legislation will be too late to overcome the existing and future pensions crises; the proposals are insufficient and harder, firmer and quicker measures are needed. The additional burdens placed on occupational pensions schemes by some of the projected changes will only increase their difficulties, not resolve them.

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