

Is there a Pensions Crisis?

For three years now Ministers having been denying that there is a pension crisis. Perhaps there isn't - perhaps there is! In this Newsletter we look at some of the facts and some of the dangers inherent in current political thinking which, if enacted could adversely affect pensioners. Why not look at some facts and make your own judgement.

The Annual General Meeting NATFHE 27 will be held Britannia Street (off Grays Inn Road) Kings Cross London WC1X 9JP on Thursday 1 July 2004 at 14.30. We have invited as our guest speaker Rodney Bickerstaffe President of the National Pensioners Convention.

Guest speaker Rodney Bickerstaffe President of the National Pensioners Convention

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Crusading for rights is not easy but it can be very effective. If your cause is just and you get your campaign politically correct you make remarkable progress. So much for the experience of the ASW workers deprived of their pension rights. An active web site called

www.pensionstheft.org and a good sound bite and picture are bound to attract attention. One only has to look at the response of MPs of all parties, 300 of them, to the Early Day Motion 200.



Single issue campaigns such as that of the ASW employees are designed to hit the headlines. For those of us with hopefully a more secure pensions base campaigning has to give way to the solid drudgery of looking at the fine print. Following the progress of the Pensions Bill of 248 clauses and 12 schedules and all the amendments is no easy task. It is clear however that it contains pitfalls for pensioners and pension funds which need clarification and correction.

The more the city looks at the bill the more problems become apparent. Indeed the whole structure of pensions management now seems to be under the microscope – the possible conflict of interest for actuaries when working for the company and the trustees, training for trustees, the possibility of investors being held financially responsible for immoral acts by companies. The list seems endless.

The advent of the CPI as the measure of the macroeconomic inflation as a replacement of RPI will also need careful monitoring. Whilst the Government assures us that it will use RPI for tax and pensions indexing we all know the value of government promises. What will the ESPS companies make of this? We will be watching.

The Hard Facts

According to Channel 4's Liam Halligan nine million people in this country, young and old, pay into final salary occupational pension schemes. But there appears to be no legal right to that pension money whatsoever.

350 companies have walked away from their final salary pension schemes.

60,000 employees have lost their pension, or a very significant proportion of it, because their pension funds were inadequately funded when the company closed.

Since 1997 the Chancellor has taken £5,000 million each year from pension funds, that is £35 billion since this Government came to power.

Successive governments, the Department of Work and Pensions and the Financial Services Agency have claimed that the minimum funding requirement for final salary pension schemes 'guaranteed' that pension funds and pensions were safe. This has proved not just illusory but far from the truth. A fact that is now reluctantly admitted.

The Pension Protection Fund (PPF) appears to guarantee that in the event of failure of the company the pensioners will get at least 90% of their entitlement. Again a good sound bite but a slight of hand. Schedule 7 of the Pensions Bill, if enacted, will allow the Secretary of State to set this figure at a different level and if the PPF is in deficit it could be zero.

The Pension Protection Fund will be financed by another 'tax' on established funds. The Secretary of State has categorically stated that there can be no public money for the protection fund. Well-run and well-managed Funds like ours will be expected to pay a levy to protect other schemes. This means that our employers' costs will rise and any possible future benefit enhancements will be reduced.

The Government is already anticipating future funding problems for the PPF. There is a distinct possibility that Government will expect employers and pension schemes to make a retrospective contribution to fund the PPF.

The Pensions Bill and the ESPS

Jack Andrews reflects

2004 has, so far, been a year of great significance to occupational pension scheme members generally. I am sure that no one is unaware of the Pensions Bill currently going through Parliament and most of you will know the important aspects of the proposed legislation

Many of our employees and pensioners in other industries such as steel, shipping etc. have seen their schemes being wound up by the employers, some of whom have cited the costs as being too great and 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 current Bill does nothing to help these unfortunate people. It sets up a compensation scheme for future cases, but totally ignores the past cases. The compensation scheme now proposed has, of course, to be financed and the Bill also proposes a levy on existing schemes to pay for it. The ESPS Schemes will not escape these extra costs. Coincident with the Bill, the Government have now legislated to the effect that, where a solvent employer winds up its pension scheme, the deficit and any outstanding employer contributions due become a debt liability of that employer.

The Government obviously wishes to reduce future closures but its proposals beg 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. Such loopholes, which are already apparent before the Bill has completed its Committee stages leaves little optimism that the eventual Pensions Act will be the all-embracing saviour that we had hoped for. It now seems less likely that existing ESPS members will suffer the proposed restriction of 2.5% on RPI increases although we must wait for the Act and its associated Regulations to be sure.

A considerable number of MPs have already signed a Commons motion asking that the legislation be made retrospective and that those unfortunates who have lost practically everything should be compensated. I guess you have to be one of those affected to understand the full significance of this.

Your Directors, both individually and through our participation in the Occupational Pensioners' Alliance, of which we are founder members, have been active in writing to MPs and to Government about these problems.

Indeed, we hope that we have in our small way, helped to extract Mr. Blair's recent statement that the Government are now "considering" what can be done for those who have already lost their pensions through no fault of their own.

Your Directors are, of course, here primarily to keep a watching brief on the ESPS Scheme and to act as a pressure group to ensure that ESPS members receive the maximum benefits to which they are entitled. This does entail keeping an eye on current legislative proposals and making the strongest possible representations to anyone who will listen where we feel our members' interest to be threatened. Our responses to the Green and White Consultation Papers leading up to the Pensions Bill bear witness to the hard graft involved.

As a serving trustee in the London Scheme, and an observer of other ESPS schemes, I must say that we have, so far, been very fortunate in the present difficult climate. None of our employers has wound up a scheme and this now seems unlikely to occur in the immediate future. Indeed, one employer, EdF, has this year launched an end salary scheme for first time members and existing money purchase scheme contributors. This must rank as unique amongst present day employers.

As you can see, there is both good and bad news on the pensions front at present. Unfortunately, we, in ESPS, are not out of the wood yet. Most, if not all, of our schemes are currently in deficit, and 2004 is the revaluation year of the three-year cycle. In 2001, many members enjoyed a small but significant increase in benefit from the surpluses then achieved; unfortunately, this time there are not likely to be any benefit increases but we must all remember that past improvements will continue and must still be financed. Your trustees are currently very much involved in negotiations with employers to make good the deficits and to agree the accompanying terms. If they seem to be a little older next time you see them you will know the reason why!

One heartening factor is that equity values are recovering and asset values are nearing the 2001 levels; liability costs are, however increasing substantially because we are tending to live longer and those of you who know me will also know that I attribute the increase in liability cost partly to the way in which they are now based on bond values. If the bond market falls, our liabilities increase because, although the costs remain the same, the cost of purchasing bonds to finance them varies with the ups and downs of the bond market. Equity market panic is reflected in higher liability costs!

I, and your other Directors, hope that the work we are doing on your behalf meets with your approval, however, if you would like to join us please

do not hesitate to let us know. Our AGM is fast approaching and, although we spread our workload over the existing Directors at present we are in serious need of more help in attending meetings, writing letters, preparing documents, and providing opinions and ideas for new initiatives. Don't be shy if you feel you can contribute. Unfortunately, it won't make you very rich – we all work voluntarily!

CPI vs RPI

In the year to April, the consumer prices index (CPI) rose by 1.2 per cent. In the year to April, the all items retail prices index (RPI) rose by 2.5 per cent.

The consumer prices index (CPI) is the main United Kingdom domestic measure of inflation for macroeconomic purposes and the inflation target for the United Kingdom is defined in terms of the CPI.

To be fair The Chancellor of the Exchequer, in his Pre-Budget Report statement last December 2003 confirmed that uprating of pensions, benefits and index-linked gilts would continue to be calculated with reference to the RPI or its derivatives. But we all know

the value of government promises in the area of pensions.

Another reason to be cautious about the CPI vs RPI is that except when inflation is very low the CPI has historically always been well below half that of the RPI. Given that council tax increases in recent years have been several times the RPI let alone the CPI pensioners could yet be faced with another double whammy.

Coming back to the parliamentary scene we should perhaps welcome the Conservative Party policy to restore the link between wages and pensions. This is manifested in Early Day Motion 64 which strangely has no Labour supporters!

Campaigners say Age Related Payments Bill fails to tackle pensioner hardship

Britain's biggest pensioner organisation – the National Pensioners Convention (NPC) – has claimed that the Age Related Payments Bill fails to address the central problem facing existing pensioners of an inadequate basic state pension.

Joe Harris, NPC general secretary said: "The one-off £100 a year payment towards the council tax fails to offer a long-term solution to the problem faced by pensioners of rising bills and falling incomes. Many will see it as a short-term election gimmick rather than a serious attempt at tackling pensioner poverty. Rather than money being given in separate hand-outs, many older people would prefer a much bigger basic state pension that enabled them to pay their own way."

Reg Mayes 1923 – 2004: An Appreciation

Reg Mayes died in March age 81.

David Laws writes:

Reg's funeral took place on the 25th March in Ashted. Many of his family, friends and colleagues were there to say goodbye to this extraordinary man. He had contracted Parkinson's Disease and was confined to a home before his death.

Reg had a distinguished career in the Electrical Supply Industry, the last years being spent in the Transmission Planning Department at CEGB Headquarters.

I was privileged to meet Reg because both of us independently complained to the Pensions Ombudsman over the first post privatisation distribution of Surplus in our Pension Fund. He saw, at once, the blatant unfairness in the widely different ways the new companies dealt with this when we had all contributed on the same basis to the ESPS.

Six years later and the House of Lords decision against us, it seems the Employers can do almost what they want, but they tread very carefully, that's now history.

Throughout the process Reg remained staunch in his commitment but he had been there before! He had campaigned against the route of the M25 motorway adjacent to Ashted, a campaign that also went to the High Court. He was also prominent in the campaign against leaded petrol.

A man of many talents Reg was also Secretary of the British Musical Box Society.

Reg will live on in all our memories. It was a privilege to have known him.

Early Day Motions

EDM 200 Occupational Pensions now has 300 signatures:

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

Conservative Party 26; ***Democratic Unionist Party*** 4; ***Independent Conservative*** 1
Labour Party 209; ***Liberal Democrats*** 46; ***Plaid Cymru*** 4; ***Scottish National Party*** 5
Ulster Unionist Party 5

EDM 627 ADEQUATE PROTECTION FOR PENSIONS

Proposed by Frank Field has surprisingly attracted widespread support

Conservative Party – 70; Democratic Unionist Party – 4; Independent Conservative – 1; Labour Party – 112; Liberal Democrats – 14; Plaid Cymru -3 ; Scottish National Party – 2; Ulster Unionist Party - 2

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

EDM 64 PENSIONS David Willetts

“That this House congratulates the National Pensioners Convention on their long-running campaign; and calls upon the Government to restore the link between the basic state pension and average earnings.”

This motion has 54 Tory supporters out of 61 signatures. Strangely there are no Labour Party signatures.

Pensioner Woes

We are aware of the billions of pounds that residents of the UK owe banks and financial houses. This is of course one symptom of the consumer society as ease of borrowing and the use of credit cards continues unabated even though the Bank of England has raised interest rates and threatens to do so again.

What is perhaps less well appreciated is the amount of debt held by pensioners. Although not brought up in an easy spend era the statistics show some 500, 000 of us still have a mortgage on retirement. Some of us will never be able to repay them. 100,000 of us owe more than £10,000 each. We have the sum of £1.62 billion on credit card debts. 2% of us have personal loans with about half of them secured on our homes. Some of us will never be able to afford the repayments. Sobering!

Actuaries in trouble

Writing in the Telegraph Teresa Hunter says

“COMPANY pension schemes may be subject to further disruption following new legal advice which suggests firms of actuaries may no longer be able to advise both the pension scheme trustees and employers as this could constitute a conflict of interest.

Firms of actuaries may be left vulnerable to litigation, and individuals at risk of disciplinary action, as a result. The legal opinion was commissioned by the Institute of Actuaries from lawyers at Herbert Smith, and comes against a background of growing concern about the way occupational schemes are managed. Nearly all the big actuarial consultancies, including Mercer, Watson Wyatt and Hewitt Bacon & Woodrow, admit that they act for both trustees and employers for most of the schemes they advise. They are reviewing these arrangements in the light of this new legal opinion, but are also seeking their own legal advice.

The opinion rules out acting for both parties in a wide range of situations, including scheme mergers, wind-ups and other major restructurings. However, it also suggests actuaries leave themselves exposed to a charge of "conflict of interest" even when they go about their everyday administrative duties. This is because an employer could consult them about a measure detrimental to the scheme members, who are represented by the trustees. “

OPA moves ahead

The Occupational Pensioners Association held its inaugural general meeting in May.

Dr Brian Marks IBM is chairman designate and members of Council are: Peter Austin Industrial Training Board; Graham Ball Unilever; John Batstone British Steel; Roy Causton Thorn and EMI; Tony Cowell Civil Aviation; Mike Moriarty Electricity Supply; Jim Nicholas Royal Mail & BT; Tom Rivers BBC; Gordon Williams Royal Ordnance.

The Executive Officer is Roger Turner. His address is the National Federation of Royal Mail & BT Pensioners Carlton House 42-44 West Street Dunstable LU6 1TA

The OPA has scored at last! During the Third Reading of the Pensions Bill in the Commons on 18th May the government agreed, after lobbying from OPA, to consider tabling amendments in the Lords to include pensioners in the selection of Member Nominated Trustees.

The PPF Will Not Help Mature Pension Funds says Roger Turner

Roger explained that existing pensioners in defined benefit schemes which automatically included an element of indexation prior to 1997 could lose out considerably. If their company were to become insolvent the PPF will not provide any increases to pensions in payment for those who retired before 6 April 1997.

"Promises made should be honoured and years ago these pension promises would have included indexation. For a widow or any dependent to lose this is dire" he said.

Turner said that the PPF will let down those expecting their pensions to continue to increase - increases they have actually paid for - and this limitation has only been brought in to reduce the costs of the PPF at outset.

The OPA is also alarmed that because the PPF will not include the liabilities of future increases to payments then the PPF could view schemes that are being wound up as technically not having a deficit.

When the PPF does a scheme valuation it will exclude the pre-1997 indexation which for the more mature schemes will remove much of the liabilities which could mean that the scheme is not in deficit.

LEGISLATION ILL THOUGHT OUT

The passage of the Pensions Bill through the Commons is proving how ill thought out expedient measures can be. It is a feature of recent governments that they have responded too readily to singular events with ill judged legislation and thereby affected many more people than was intended.

The Bill started with 282 clauses and 13 schedules. It has now been subject to scores of amendments and it has not yet received, what we hope will be, the detailed scrutiny of the House of Lords.

Short term popularism and sound bites have been seen as far more important than clear well thought through legislation. Prime examples are the Dangerous Dogs Act and the ban of hand guns as a result of the Dunblane shootings which has all but has destroyed target shooting in Britain as a sport. It has done nothing to reduce the number of illegal firearms on the streets.

So too with the Pensions Bill. After much consultation with green papers and white papers the Bill does nothing to address the real issues surrounding pensions. What it does is to allow the Secretary of State nice sound bites about the protection the Act will offer whilst at the same when you read the small print you find it does nothing to protect anyone.

What it does do is make the efficient, well-managed final salary schemes bear the cost of the incompetent, rash and the immoral management of poorer schemes. What is worse it does this by expecting good schemes to bear some of the cost on a retrospective basis.

It also includes a stealth tax. Who do you think is going to foot the bill for the pensions' protection fund. The pension schemes, that's who. In year one the levy will cost the equivalent of £40 for every one of the 16 million people in final salary pension schemes.

A philosopher will tell you that the very existence of the pensions protection fund as it is being proposed only increases the likelihood of more pension funds running into difficulties. Whilst new provisions will attempt to block loopholes there is already major City concerns about the impact on investors of these proposed restrictions. We know who calls the piper so what will the final tune be.

A word of caution whilst on my soap box. Let's watch Frank Field. His well-supported EDM 620 has a sting. It would be my guess that many of the unclaimed assets in banks and building societies belong to pensioners.

Time, I think, to check those old bank books and reclaim your money before Frank has it for a 'good cause'.

ASSOCIATION OF ELECTRICITY SUPPLY PENSIONERS

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The Seventh 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 1 July 2004 at 2.30 p.m.

Light refreshments will be available from 2.00 p.m.

Special Guest Speaker

Our Speaker this year will be Rodney Bickerstaffe, National Pensioners Convention President

Reports

- 1 To receive and consider the Chairman's Report, the Accounts for the year ending January 2004 and the Auditor's Report.
- 2 Developments in the ESPS

Resolutions

- 3 To authorise the Council to appoint auditors 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 Andrews and Mr Moriarty retire by rotation and offer themselves for reappointment

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.