

# AESP NEWS

August  
2007

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Our Annual Meeting guest speaker this year will be Richard Barlow, Chief Executive of the ESPS.

This will be a splendid opportunity to hear about developments in the Scheme and discuss issues in a way which might not be possible at the Scheme AGM or indeed any group annual meeting.

The meeting will be held on Thursday 20 September and the venue is the Britannia Conference Centre (UCU) 27 Britannia Street (off Grays Inn Road) Kings Cross London WC1X 9JP at 14.00.

**Formal notice of the Association AGM is on the back page of this Newsletter.**

**Seeking new members:**

**Pensions continue to make headlines. Never has the need for strong pensioner associations been more evident.**

**Several of you have asked us to include application forms so you can pass them to colleagues. The centre page contains an application form together with a standing order form. Simply remove and photocopy.**

**Don't forget that our Web site [www.aesp.org.uk](http://www.aesp.org.uk) contains a membership and standing order form.**

## Comment

The pensions industry seems to be in total disarray. By comparison our own Scheme, the ESPS, seems to be an island of stability. However is all as comfortable as we would like?

As other articles in this Newsletter show pensioners suffer much higher rates of inflation than conventionally admitted. RPI is not an adequate indicator of our needs. However the chances of any more real improvements in pensions must be seen as remote. There are powerful forces at work outside the ESI. The Energy Regulator has allowed pension deficits to be part of the regulatory price increase formula. There is therefore no imperative from this standpoint for those companies with this benefit to contribute anything extra to meet the deficit. Further, accountants KPMG recently warned firms about using cash to clear deficits. It said that clearing pension deficits within a year using discretionary cashflow would be a mistake. It would lead to a growing problem of "trapped surpluses". The KPMG spokesman said "Although it seems counter-intuitive, using cash to top up a pension fund makes no sense in almost all circumstances." There's some thought for our trustees.

In addition to problems of recovering deficits trustees are faced with how they calculate liabilities. The actuarial profession seems to be at sixes and sevens over life expectation data. Having got well behind in their understanding of what has happened regarding life expectation they now seem to be unclear of how to handle the issue. Only now is the Board for Actuarial Standards rising to the challenge by launching a review of the mortality assumptions made in actuarial calculations.

Of course this type of projection can only be based on past experience. However the future is clearly not going to mirror the last twenty years. It is too early yet to consider the consequences of the 2007 Pensions Act, which increases the state retirement age and which in itself must impact on longevity. If people are going to have to work longer and retire older what impact will this have on mortality rates?

The last two generations have benefited immeasurably by the NHS, by the widespread use of antibiotics, by healthy diets and improved housing. People have been increasingly starting to die of the diseases of old age. There are clear data that show that different occupations lead to different mortality rates. However working stress, from longer hours, and older retirement could well actually reduce longevity. Pensions are a long-term investment. Trustees need to question their actuaries very carefully so that they understand the mortality data that they are being offered in order that they do not rush to solutions which will affect longer term options.

Pensioners can expect no help from the Treasury. Frank Field's article makes clear that the Treasury does not favour other people's pensions. The documents published earlier this year as a result of the Times request under the Freedom of Information Act regarding the 1997 withdrawal of ACT relief show how shallow was the advice to ministers. The sensitivity analysis appears not even to cover the period to the 2001 election let alone the impact over fifty years. The demise of defined benefit pensions schemes was not even considered.

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## **Triennial Revaluations**

This year is very important because it marks the triennial revaluation of all our Schemes. Our trustees will have been beavering away trying to agree the parameters for this process, which is based on the 31 March 2007 financial position.

The important point to make is that the ESPS consists of a number of actuarially independent sections, the Groups, and for valuation purposes each Group is treated as if in effect it is a completely separate scheme.

All except one of the Groups have been carrying deficits in the last three years. With the recent increases in FTSE values, we should surely expect to see deficits greatly reduced or eliminated; after all, in 2004 the FTSE was at the 3,500 level and in March it had reached 6,300.

All this depends on how your Fund is invested. If it is mainly in bonds it will have missed out on this bonanza, however, if the reverse applies, your group should be much better off. If the deficit is reduced it might be that Trustees should ask the company to clear the deficit. However the regulatory regime may not make this attractive. In addition only this month KPMG issued strong advice to companies that it would very disadvantageous for cash rich companies to clear deficits.

The Valuation Reports should be available from Scheme Administrators during November/December 2007 and the results should be given at your Group's AGM – if it still holds one.

A triennial valuation is a practical exercise in forecasting. However there is no reason why, just because all the Groups come under the ESPS umbrella, each valuation should be undertaken using the same set of assumptions. The circumstances of the Groups will vary, which means that the assumptions might also vary, depending on the circumstances of each Group and the views of the trustees.

The valuation attempts to answer the question of how much should be paid now to meet the cost of the pension benefits that are due to be paid at

some time in the future. This means that it must inevitably require the exercise of judgement about factors, such as future investment returns, increases in individual earnings and mortality rates that cannot be known with certainty. So the job of the scheme actuary, who is advising the Group trustees, is to exercise that judgement and to recommend assumptions that best meet the objectives set by the Group trustees.

Its important to understand that the inevitable result of this lack of certainty about what will happen in future is that there is no single right answer about what assumptions should be made. One actuary may well have a different view to another actuary but this does not make one right and the other wrong, at least at that point in time. This does not, however, give actuaries free rein to make whatever assumptions they wish, as there are three important practical constraints on what they can assume.

First, the scheme actuary needs to retain the confidence of the Trustees, which means that the assumptions should be plausible to the non-actuary.

Second, the assumptions must lie within what is regarded as currently accepted practice among actuaries in general. Unfortunately, what constitutes such accepted practice is not codified in any way and can only be identified by looking at what other actuaries do.

And lastly the assumptions must now comply with the requirement for ‘prudence’ as set out in the Pensions Regulator’s Code of Practice 03.

When comparing assumptions made by Groups it is important to recognize that they are to a large extent Group specific, i.e. depending on the circumstances of the particular Group. For example, assumptions about pay increases will depend on what increases are expected for the active members of a particular Group, rather than the industry as a whole. (There is no longer any national pay bargaining.) In the same way, it is possible that expectations about mortality will vary between Groups although Industry wide data will be helpful here. Expected rates of investment return will also vary, depending on the way in which Group funds are invested. For example, a Group that invests more in equities might anticipate a higher rate of return than a fund that invests mainly in gilts or bonds.

Some assumptions might logically be thought appropriate to be common to all groups for example i.e. future price increases. Such values are dependent on Government policy and are often stated intentions/aims from the Chancellor.

What all this means, in practice, is that there is scope for disagreements and professional disputes about valuation assumptions and it is difficult to provide straight-forward answers to questions about whether particular assumptions are, or are not, reasonable.

This is not to say that the assumptions chosen for each Group at the 2004 valuations were the right ones. It would only be possible to check this against the facts of each case. For example, the pay increase assumption would need to depend on what the particular employer was saying about future pay increases. The assumptions about investment returns should depend on what was specified in the Group's own statement of investment principles (SIP). In each case it would have been up to the Group trustees to satisfy themselves that the assumptions that were made were those that were appropriate to their own particular circumstances.

So what can be expected in the valuations undertaken as at 31 March 2007? It is inevitable that the assumptions will again vary from Group to Group. The Pension Act 2004 now gives Trustees the sole responsibility for a final decision on the valuation basis for their Group. This means we can expect to see an even greater variation of assumptions.

Price increases are now expected to be higher than they were predicted in 2004. The Chancellor's inflation targets have been breached. With much concern for commodity price increases owing to world market conditions, not to say the impact of recent weather calamities on farming in the UK and elsewhere and other investments we should expect something significantly higher than the 2.9 per cent used 2004. It is quite possible that there will be other adjustments, with changes in the investment returns in real terms, reflecting changes in each Groups investment policies and general changes in market expectations. There might also be changes in expectations about future pay increases.

We will be attempting to analyse all these issues for you in due course when the results of the valuations are available.

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## **Pensions Act**

The Pensions Act 2007 reached the statute book at the end of July. According to Peter Hain (Secretary of State for Work and Pensions): "This Act will deliver the most important reforms to the state pension system in generations." The Act will gradually increase the State Pension Age to 68 by 2046 for men and women.

The Act also re-links the Basic State Pension with earnings from 2012, or by the end of the next Parliament, and provides for a simpler flat rate State Second Pension. Laughably, in light of what is the actualité, Hain also said: "This Act lays the foundation for the new pensions settlement. By re-linking the Basic State Pension with earnings, we will ensure that living standards for older people keep pace with the rest of society."

## **New Members**

The future of an Association like the AESP is entirely dependent on two factors; the continued support of the members and the continuing, entirely voluntary, work done by members of Council. From time to time it is necessary for new experience and for younger people to be recruited – we are all getting older as is the very nature of members in pension schemes which are closed to new members.

Up to now we have been fortunate in that the membership has been of a size which has just allowed the work to be managed by 9 or 10 members of Council. However, we would like to expand and this may mean hiring external help, with the additional costs that that may incur. We have advertised for new members this year and Council is currently discussing how far we can progress without losing the momentum that we have built up. Our prime need is to have more of our members elected as trustees. We ask that members bear this in mind when selecting candidates for election or re-election. Several Council members, as ex trustees, are already fully qualified by their experience to act as trustees.

We need to be able to detect problems as early as possible in order to make all the necessary and timely representations; once the employer has changed a Rule or made an adverse decision the trustees are currently powerless to intervene, whereas the Association can, and does make representations to the Pensions Regulator and to the Government in respect of new legislation etc. In addition, we now have the resources to take legal action when necessary and we believe that the electricity employers are aware of this.

The centre page of this Newsletter contains details of current members of Council. In addition it contains a membership application form. Don't hesitate to remove this page and photocopy it and pass it to any prospective members.

**Thank you for your continuing support and we look forward to providing a further newsletter early in the New Year which will deal with the annual reports and the outcome of the triennial valuations.**

# Association of Electricity Supply Pensioners

[www.aesp.org.uk](http://www.aesp.org.uk)

## 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 pension 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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**ASSOCIATION OF ELECTRICITY SUPPLY PENSIONERS**  
**Membership Application**

I apply for Membership of the Association of Electricity Supply Pensioners.

- I enclose a cheque for ten pounds payable to the Association of Electricity Supply Pensioners for my annual membership.
- I enclose a completed Standing Order Mandate.

(DELETE AS APPLICABLE)

PLEASE USE BLOCK LETTERS

Surname:		Title:
First names:		
Address:		
Town		postcode

Pension Group or former company:			
I am a:	• Pensioner	• Contributor	• Deferred pensioner

**SEND YOUR APPLICATION AND CHEQUE OR COMPLETED STANDING ORDER FORM TO:**

**AESP PO BOX 64 ASHTEAD KT21 2YS**

**ASSOCIATION OF ELECTRICITY SUPPLY PENSIONERS**  
**Membership Application**

STANDING ORDER MANDATE  
New Instruction

To \_\_\_\_\_ Bank  
\_\_\_\_\_ Branch

Account to be Debited

Sort Code 

--	--	--	--	--	--

 Account Number 

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Account Name 

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**Beneficiary Details**                      Association of Electricity Supply Pensioners  
**Barclays Bank Plc**                      Sort Code                      **20-29-90**  
**Ashtead Branch**                      Account Number                      **20286435**

REFERENCE

**Payment Details**  
AMOUNT OF FIRST **ANNUAL**                      **£10.00 Now**  
PAYMENT  
AMOUNT OF USUAL                      **£10.00 1 June 2008 and annually**  
**ANNUAL** PAYMENT                      **thereafter**

signed: \_\_\_\_\_ Date: \_\_\_\_\_

**SEND YOUR COMPLETED FORM TO:                      AESP PO BOX 64 ASHTEAD KT21 2YS**

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*The following is an article which appeared in the Sunday Times in April*

# **The great pension swindle**

**Frank Field**

When Labour gained power in 1997, Britain's occupational pensions were the envy of the world. We had more capital invested to pay tomorrow's pensions than almost the whole of the European Union combined.

Ten years on the scene is one of large-scale desolation. Two chancellors – Nigel Lawson and Gordon Brown – stand in the dock accused of gigantic misjudgements that have led directly to this sorry state of affairs.

A section of the Treasury has always had it in for occupational pensions, despite the fact that it is the beneficiary to the most privileged of final salary schemes. The Treasury suspects that when the rest of us save for our pensions, we're up to some clever tax dodge.

Hence its delight in persuading Lawson to tax pension fund surpluses. This was the first hammer blow against Britain's pensions savings.

From henceforth, funds with more than 105% of their pension liabilities would be taxed on the surplus.

The outcome was inevitable. Why should employers put profits into their company's scheme if the government was going to tax the surpluses? Yet employers knew that pension promises are, by their very nature, long-term liabilities. Surpluses built up in the good times would help to protect those promises during stock market and economic downturns.

By stamping on this collective wisdom, Lawson invited employers to run down their surpluses. Pension holidays for employers and often employees were declared and I can't recall a single trade union objecting to this practice then. Company profits and take-home pay were boosted at the cost of pension funds' solvency.

It is against this background of a previous Tory government's wanton attack on the amount of capital put aside to pay future pensions that Brown's changes to advance corporation tax (ACT) have to be considered.

Here is the second hammer blow. Lawson's policy of running down surpluses was working only too well. The ACT changes were made, therefore, at a time when these funds were already reeling from an ill thought through and dangerously pernicious strategy.

The Treasury's counterattack yesterday carries little conviction. Critics, we are told, are only quoting sections of the papers forced out from the Treasury by The Times under the Freedom of Information Act listing the damaging consequences of the ACT changes. These dangers could not have been put more clearly:

- Pensions would be cut.
- An annual £4 billion cut in pension fund income.
- Fund values would fall by £50 billion.

- Council tax would rise to pay for local authority pension fund deficits.
- Schemes would be driven into insolvency.

The Treasury replies that any papers prepared for ministers set out the advantages and disadvantages of new policies. But the main charge is not that critics are quoting selectively. The argument is in a different ball park altogether.

It is that once the pros and cons had been considered, what was the government's decision? At the heart of this debate was a questioning of the chancellor's judgement. Ten years on, events shout out the answer.

The scale of pension fund closures to new members is of landslide proportions. It is now not uncommon for schemes to close to existing members. And, worst of all, some schemes have been forced into insolvency and 125,000 pensioners are still not being fully compensated for their losses.

Devastation on this scale might have been acceptable if the government had put in place a more effective alternative. But it hasn't and chaos reigns on this score, too. Savings have halved.

In his best move the chancellor has directed more taxpayers' money to the poorest pensioners than any previous chancellor for 50 years. But even here his policy is destructive in the longer term. Pension credit is means tested. The message has gone out that the government will help those who can't save or won't save.

Woe betide those who do save. They will be mocked. Forty per cent of the population cannot now make themselves better off by saving than they can by simply spending now and relying on the state later. A free society cannot, in the long run, survive on this basis.

The most carefully costed alternative strategy was put forward by the Pensions Reform Group, which I chair. Here was a scheme that put a shelf life onto pension credit by building up capital to fund everyone a minimum pension.

Such a guaranteed minimum pension can be secured only if the whole society pools the risks of delivering such an outcome. It is a collective but nonstate led reform. The proposal was never seriously considered.

The worry for the chancellor is not a selective quoting of released Treasury papers. Remember Bill Clinton's famous phrase that it's the economy, stupid. The fear must be that the word 'judgement' is substituted here for the word 'economy'.

*Frank Field is Labour MP for Birkenhead and was minister for welfare reform 1997-98*

Anyone wishing to look at the Treasury Papers they can be found at:

[www.hm-treasury.gov.uk/about/information/foi\\_disclosures/2007/foi\\_dividendtaxcredits\\_2007.cfm](http://www.hm-treasury.gov.uk/about/information/foi_disclosures/2007/foi_dividendtaxcredits_2007.cfm)

**And very sorry reading they make too!**

## **Whither democracy?**

The trustees of one group, EDF, have decided to abandon annual general meetings for their members. The Association is deeply opposed to this change because it denies members the regular opportunity of “eye to eye” consultation with their trustees and managers. Irregular newsletters are a totally inadequate replacement for a guaranteed meeting where trustees must be accountable to their members, and for half of them their electorate.

Our efforts to correct this situation are not yet exhausted.

Trustee elections are now on the horizon in some, if not all, schemes for the end of the year. This is the time for members to consider whether or not their elected trustees have done a good job before re-electing them. The Association’s view is that it is insufficient to make this judgement on the fact that the monthly pension arrives on time; the Daily Mirror pensioners took that view and suffered as a result.

Please take the time to consider what has happened to your scheme’s deficit and whether any changes have been made which are detrimental to members – also perhaps what your prospective trustees’ attitude might be to the 5% cap on RPI increases, before making up your minds. You may like to ask for a copy of the various documents that your Scheme Administrator can, and must if requested, make available to you, including details of the all-important Valuation Report. We hope that members will wish you consider these suggestions and perhaps will raise any queries at the Association’s AGM on 20 September. In the meantime your Council members will continue to keep an eye on the Schemes on your behalf.

## **A New Brown at Number 10!**

The AESP has always been, and will always remain, a non-political organisation but there are times when we must comment upon events which affect our Scheme and on occupational pension schemes in general.

We now have a new Prime Minister. Do you like me see similarities between Gordon Brown and that infamous ex-MP and Chairman of Mirror Group Newspapers, Robert Maxwell?

These two highly educated and respectable chaps had a lot in common. They were they both elected members of Parliament and they have represented all of us there. But you’ve guessed it! They have both robbed occupational pension schemes. But there the similarity ends. Maxwell stole from one scheme and left many pensioners penniless. Brown has taken £5billion each year from many occupational Schemes.

This has resulted in many scheme closures. Consequently many pensioners, and those near to retirement, have lost not only of their pension, but have had to spend what little cash they may have saved.

The charitable amongst us will no doubt point out that Maxwell broke the Law and could have gone to prison had he lived but what of Gordon Brown? He has been rewarded with promotion to the post of First Minister in the Government. Who says that crime doesn't pay?

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## **Pensioners suffer from inadequate indexing**

Inflation reached 4.8% earlier this year. The ESPS has a cap restricting indexation (RPI) increases to 5%. I wonder how many of you have given thought to the fact that if this is actually applied we will all be suffering a massive reduction in the value of our pensions because, for pensioners, inflation is already above RPI.

Following last year's ESPS AGM resolution, the employers have steadfastly refused to consider raising this threshold. I would urge members to attend your local Group Scheme AGMs and to raise this point. At the very least you may be able to get your company to repeat this shameful decision but, who knows, on the back of the tremendous profits being made by the employers, you may be able to change their individual parsimonious minds!

As I have said the RPI limitation of 5%, if used by the employers, would be a really serious blow as pensioners already suffer a real loss in pension value as a result of ordinary RPI indexation. All pensioners experience above-average inflation because of rising energy bills and council tax, and the costs of other basics. Pensioners do not generally benefit from the very real price reductions on some items in the index such as electronic goods. They only buy white goods as essential replacements not from fashion. The average weekly disposable income for poor single pensioners has fallen to £138, last year it was £140.

Consider these facts (source Help the Aged):

- the average council tax bill is £300 more than in 2001 ( benefits do not reflect the increase in real terms).
- The low estimates of energy price inflation last year were gas bills up 43 per cent last year and electricity up by 37 per cent, some estimates are even much higher.
- Inflation is rising 53% faster for people aged over 75 than it is for working people, according to investment group Alliance Trusts. It says “ older people face different financial pressures and spend more on things like energy which has seen recent price hikes.”

Pensioners still do not take all the benefits they are entitled to.

- 47 per cent are still not taking up their entitlement to Council Tax Benefit
- 40 per cent of those entitled to Pension Credit in Great Britain are still not receiving it.
- Take-up of concessionary fares in GB for those aged 60 and over has been static at 56 per cent for the last three years.

**Do make sure you get all you are entitled to:**

**Claim attendance allowance.** This is a non-taxable, non-means tested allowance paid weekly at two rates £43.15 for day or night care and £64.50 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.

*From 1 October 2007 Enduring Powers of Attorney (EPA) can no longer be made. Instead, they will be replaced with a revised type of power called a Lasting Power of Attorney (LPA). This does not prevent you from making an EPA now. ([www.guardianship.gov.uk](http://www.guardianship.gov.uk))*

## **ASSOCIATION OF ELECTRICITY**

### **SUPPLY PENSIONERS**

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The Tenth Annual General Meeting of the Association will be held at the Britannia Conference Centre 27 Britannia Street (off Grays Inn Road) Kings Cross London WC1X 9JP at 2.00 p.m. on Thursday 20 September 2007.

**Light refreshments will be available from 1.30 p.m.**

#### **Reports**

- 1 To receive and consider the Chairman's Report, the Accounts for the year ending January 2007 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 G Blackman, 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 Laws 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 14 September. 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.