

## **July 2002 Response to the Pickering Report**

### **A Recipe for Pensioner Poverty**

The Pickering Report published last week aims to suggest a new model for occupational pensions in the UK. The report, which is obviously highly influenced by the interests of big business, city institutions and the pensions service industry, seems to pay little regard to the interest of the working man and woman and to their futures as pensioners.

The voice of today's pensioners goes unheeded as can be seen by the list of organisations who were consulted by Alan Pickering as distinct from the pensioner organisations who offered evidence.

It cannot be right that the TUC and the Consumers Association are seen to be representative of pensioners although it is right and proper that they have a view.

It cannot be right that Pickering is effectively proposing an 8-10% pay cut across the Board for employees. Pickering proposes a 4% employee contribution in future. Historically employer contributions have been in the range 10 - 12%. Surely the trades unions will not wish to negotiate an across the board 8% pay cut. EU Law recognises pensions as deferred pay.

Pickering admits that pensions are a long term issue piggy backing on the rise and fall of short-term political and business considerations or in his more elegant phrase 'timescales which transcend the normal electoral cycle.' Why then does his solution echo the response of some of our major companies who having lived off the fat of the notional surplus in their pension schemes in the 1990s squeal foul immediately they have to put money back into the funds they raided in the good years.

One of the jewels of British social provision of the 20th century was the occupational pensions scheme offering a pensions based on final salary and years of service, together with index linking to the RPI and spouses benefits of a 50% pension. Pickering would have us believe that corporate Britain can no longer afford this level of provision. Is it because the City suspects that the real wealth of Britain has not in fact grown in the way corporate balance sheets would have us believe? Or do the City institutions feel they cannot guarantee through their skill and expertise to deliver with a reasonable contribution rate the return needed to offer historical levels of pension benefit?

The recommended solution offered by Pickering of scraping inflation linking and spouses benefits must be seen as a recipe for penury in old age or the creation of an intolerable burden on the State to ensure that the majority of pensioners have a basic living standard. No doubt the principles enunciated will not apply to top earners who will continue to be favoured with various forms of unfunded pension arrangements which will give them and their spouses more than adequate comfort. All argued for on the basis of market competitiveness no doubt.

The Pickering recommendations suggest very little protection for the rights of employees and even less for those of pensioners. There is a proposal to limit information that should be available. It is already limited, the 1995 Pensions Act having removed the previous right of employees and pensioners to know what advice trustees have taken.

The whole position of trustees remains unclear. The key problem of who owns pension funds remains unaddressed. Schemes are usually described as being 'separately administered by trustees'. In reality trustees are simply a façade of restraint on employers. The House of Lords recently ruled that the trustees role was to implement employers instructions.

The Report quite rightly says that 'In the workplace, the pension is part of the remuneration package...'. In other words it is deferred pay and therefore the property of the employee and subsequent pensioner. It is not a two part saving scheme which allows the company to vary its contribution agreed as part of the employment contract or worse remove part of that contribution through pensions contribution holidays or by failing to make proper contributions to make up for early retirement costs.

Pension schemes must be for the benefit of the employee. From a pay-bill standpoint it is no different whether the employee puts in 6% of salary and the employer 10% or if the employee is given an extra 10% salary and required to put 16% into the pensions fund. To paraphrase Lord Hoffman in a recent judgement '**it does have the same economic effect**'. Perhaps there is something here for our trades unions negotiators to ponder on as Pickering would wish 'trades unions and staff associations to include pension provision in remuneration negotiations with employers.'

Pickering wishes to retain the balance of trustees of pensions schemes well in favour of the company with a minimum of one-third elected trustees. This is simply not good enough. There must be independence of representation and pensioners MUST be entitled to elect trustees as well as employed members. The employer must not be allowed to have the casting vote and there is a clear need for independent trustee chairman.

This becomes all the more important when Pickering says 'It is important for employers keep their pension promise. However we also think it should be easier for employers to reshape pension arrangements in the light of contemporary economic and other circumstances.' Here again we see an example of short-term thinking on what is in reality a long term strategic issue.

Mr Pickering is careful to say that benefits accrued would not be affected by his proposals - he does not say that they will never be affected. We are becoming more aware of the stealth of political tactics - we live in an age where retrospective decisions and laws are becoming more common. If the principles of inflation linking and dependents benefits are once broken it will be but a small step to extend it to existing pensioners. Although the Pensions Minister, Alan Smith, recently said "... these proposals are not attractive.." he then went on to say " these proposals have considerable merit and subject to the response we receive we intend to take them forward".

Unless there is an immediate rejection of these proposals by members and trustees of pension funds, by the trades unions and the working population at large they will in effect become an across the board pay cut of 8%. They will offer the working population the prospect of an imposed longer working life and the prospect of an under funded retirement and probable state means tested income for spouses who lived only to support their husband or wife during their working life.

The Pickering report is a one sided contribution to the debate on pension issues which leaves many issues untouched. It is too heavily weighted in terms of the benefits to corporate interests and seeks to reduce the wage-bill at the expense of the ultimate pensioners and future tax payers. It singularly fails to offer solutions to the protection of pensioners' rights and in particular fails to recognise that pension funds are the property of the employees and pensioners by retaining the concept of the pension fund owned by the company and administered by trustees who are themselves dominated by corporate interests.

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