

THE ASSOCIATION OF ELECTRICITY SUPPLY PENSIONERS
**Comments on Working and Saving for Retirement
White Paper on Pensions**

Summary

- 1 The Association welcomes many of the proposals in the White Paper. However the Association feels that the aims and objectives of the Government, mainly directed at cost saving, will do little to encourage saving at the right level for adequate pension provision in years to come.
- 2 To achieve something like the benefits offered in the best public and private defined benefit schemes requires a funding rate across the employees working life of something around 18-20% of salary through the working period. Pickering suggested that a minimum of 15% was required. The proposals in the White Paper come nowhere near to encouraging this level of investment into pension provision.
- 3 The Association deplors the proposal to set the mandatory level of inflation indexing at 2.5% rather than the existing 5%. Whilst the Government's stated aim is to keep inflation below this level, it currently stands at 2.9% and historic inflation rates have greatly exceeded 2.5%. By setting a cap Government will effectively erode the value of all private pensions. It must be clear that this is minimum maximum and there will nothing in law to prevent a fund paying higher than 2.5% should the RPI be above that level.
- 4 The Association welcomes the statement that the Government will not follow the Pickering recommendation and will expect pension schemes to provide for survivor's benefits.
- 5 The decision to legislate for a Pensions Protection Fund, whilst superficially extremely attractive, will be another tax on well-run schemes. The protection benefit of 90% of earned benefits for employed members will, if a frozen benefit, be far less at retirement than the expected benefit if the employee had stayed in employment and continued to earn at that level and contribute to a scheme. The Government should require the transfers of the protected benefit into another live scheme run by a subsequent employer.
- 6 The Association believes that the salary level proposed for protection (£40,000 - £60,000) is far too low. This is the salary range which covers teachers with responsibility allowances, police officers and many engineers and junior managers in the energy industries. It is not the salary range of senior executives.
- 7 Members of the Association were historically associated with a pension scheme and employment contract which required compulsory membership of the pension scheme. It is disappointing that Government proposes that pension provision remain voluntary as all the evidence points to a significant reluctance in the general population to make adequate pension provision.
- 8 Given the experience of its members in the courts the Association is disappointed that it will still not be a requirement on regulators and the ombudsman to defend their decisions on behalf of complainants to the courts if that decision is challenged by employers.
- 9 The Association deprecates the unwillingness of the Government to legislate on the ownership of pension funds. Pensions are deferred salary and therefore the pension fund should be the property of the fund members – pensioners and employed members. No monies of a scheme should be payable to an employer and employers should not be able to apply monies in a scheme for purposes other for that of the scheme.
- 10 The Association believes that the actuarial profession has done a great disservice to pensions in recent years by changing the basis of valuing liabilities. This methodology was introduced at a time when asset values fell sharply and has therefore exacerbated the apparent deficiencies in pension funds. The Association calls on the Government to establish an independent methodology for valuing the liabilities of pension funds.
- 11 The Association believes that all pension funds should have equal voting representation by employers on the one hand and employees and pensioners on the other. There should be a minimum on one employed member trustee and one pensioner member trustee on all pension trust boards (should such stand for office). All pension trusts should have an independent chairman.