ASSOCIATION OF ELECTRICITY SUPPLY PENSIONERS

Honorary Secretary : Ben Flude

'Westering'
Heathfield Road
WOKING
GU22 7JG
Tel: 01483 772157

The Annual General Meeting of the Association will be held at the offices of Prospect 8 Leake Street Waterloo London SE1 7NN at 2.00 p.m. on Tuesday 25 November 2014.

Business

1 To receive and consider the Annual Report and the Accounts for the year ending January 2014.

Election of Council

2 Mr Laws and Mr Moriarty retire by rotation and offer themselves for re-appointment.

Any other nominations for Members to serve as Council Members should be sent to me at the address above to arrive no later than 14 November. 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.

-Association of Electricity Supply Pensioners Limited is a company financed by subscription limited by guarantee
Registered Number 3148917

AESP NEWS

September 2014

www.aesp.org.uk

.Change of our mailing address

Gordon Lewis is taking over responsibility for general correspondence.
With immediate effect all correspondence including subscriptions should be sent to:

AESP
59 Rushmoor Gardens
Calcot
READING
RG31 7AL

Notice of Association's AGM

This year's Annual Meeting will be at the Offices of Prospect, 8 Leake Street, Waterloo, London SE1 7NN on **Tuesday 25 November 2014** at 2.00 p.m.
The formal notice and accounts are on the back page.

Notice of ESPS Annual Meeting

This year's Scheme AGM will be held on Wednesday 3 December 2014 at the offices of Herbert Smith Freehills LLP, Exchange House, Primrose Street, London EC2A 2HS starting at 12.00 noon.

The purpose of the Scheme AGM is to receive the Scheme Annual Report and Financial Statements and the Auditors Report, receive the report of the Scheme Trustee, and conduct any general business.

If any member has a resolution which they wish considered by the meeting it must be submitted to the Scheme Secretary Kevin Groves c/o Capita 65 Gresham Street London EC2V 7NQ by 5 November.

Protected Persons Protected

From 6 April 2016, employers who sponsor salary-related pension schemes like the ESPS will no longer be able to contract their employees out of the state second pension (S2P). The Government wishes to reduce the financial impact of the abolition which will be significant for employers. The contracted-out rebate currently reduces employer's National Insurance Contributions (NICs) by 3.4% and employee's NICs by 1.4%. Because of this impact the Act provides an overriding statutory power which will enable employers of contracted-out schemes to amend their scheme's rules to alter a member's future accrual rates or increase employee pension contributions.

What is more this overriding power can be used without the trustees' consent. Fortunately it is subject to certain restrictions and will only be available for five years from 6 April 2016. It cannot be used:

- to increase total annual employee contributions beyond the annual increase in the employer's NICs in respect of them;
- to reduce the amount of the members' benefits that accrue annually being no more than the annual increase in the employer's NICs in respect of them;
- an actuary must certify that the amendments comply with the statutory requirements;
- and the power will only apply to future benefits and cannot be used in a way that may adversely affect members' or survivors' subsisting rights.

The Association's response

When this was proposed the Association was greatly concerned at this diminution of our rights conferred by the 1990 Protected Person Regulations. We responded in some detail to the formal consultation. We also encouraged elected trustees to raise the issue and get support from our boards of trustees.

Our submission was published in the last Newsletter. The Scrutiny Committee of the House of Commons also called for evidence and we submitted this in July 2013.

We believe The Electricity Supply Pension Scheme Trustee responded to the consultation with a detailed history of the ESI pension rights and also argued that removal or suspension of the Protection Regulations would be both unfair and inappropriate. Several group trustees also replied supporting the retention of the Protection.

AESP ACCOUNTS FOR THE YEAR ENDED 31 JANUARY 2014

INCOME AND EXPENDITURE

	2014		2013	
	£	£	£	£
Subscriptions and other income	4,060		5,239	
Gross Income		4,060		5,239
Administrative expenses				
Publicity	746		778	
Postage, Printing and Stationery	222		962	
Council Members' expenses	1,423		1,247	
Pensioners Alliance	40		80	
Facilities	511		366	
Website	136		630	
Officers expenses	52		199	
Companies House	14		17	
Bank charges	-		-	
Accountancy and taxation	243		240	
		3,387		4,519
		673		720
Interest Received		28		28
Surplus for the Year		701		748

BALANCE SHEET AS AT 31 JANUARY 2014

	2014		2013	
CURRENT ASSETS	£	£	£	£
Cash and Bank	66,474		65,773	
Debtors and prepayments	-		-	
		66,474		65,773
RESERVES				
Legal Fund Reserve		66,474		65,773

All annual surpluses are added to the Legal Fund

For the year ending 31 January 2014 the company was entitled to exemption from audit under section 477 of the Companies Act 2006 relating to small companies.

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Who else responded?

As might be expected there were strongly polarised views expressed by respondents. Trade unions and trustees (and individuals – 118 responses) were against allowing the override to apply to protected persons, arguing that the Government should not renege on promises made to many nationalised industry workers at the time of privatisation. However, employer and pension advisers (27 respondents) were in favour of allowing the override to apply to protected persons, arguing that protected persons and non-protected persons should be treated equally.

Analysis of the publicly declared responses shows that in addition to our response there were seven responses from trustees and four from our trades unions. There were five company responses.

The Result - Government keeps its word

It took time for the Department of Work and Pensions to analyse the responses to the consultation. No doubt other departments were also consulted. The conclusions were not published until 12 February this year.

The Government concluded that taking into account the small number of workers involved it was important to stand by the promises made to former state workers at the time of privatisation. Consequently employers will not be allowed to use the statutory override to alter the pension schemes in relation to members with protected person status and this is now been put in to effect in the Act.

The DWP felt that with only a small number of workers involved nationally (about 20,000 in the ESI and 60,000 in total) the issue of employers' increased costs could be resolved through negotiation between employers and their employees.

Now Clause 41 (2) (c) of the Scheme Clauses and Rules states:

“Any amendment to the Scheme shall be void to the extent to which it would otherwise have the effect of reducing the benefit payable to a Member or payable or prospectively payable to a Beneficiary.”

Paragraph 41 (2) (d) specifically deals with the rights of Protected Members. As a further evidence of their commitment to the pension arrangements the Principal Employers also wrote into the Scheme at Clause 41 (2) (e) similar right to Members (not being a Protected Members).

Both paragraphs require that any proposal to increase the contributions or reduce prospective benefits of a Protected Member or Member must be put to a meeting of the members:

"(d) in relation to any Group, increasing the contributions of or reducing the prospective Benefits to or in respect of any then existing Protected Member associated with such Group (other than a Protected Member entitled to Frozen Benefits) unless such increase or reduction is approved by a resolution passed by a majority of not less than two-thirds of the Protected Members associated with such Group who are concerned and who shall vote on the matter, either personally or by proxy, at a Group Extraordinary General Meeting of the Protected Members associated with such Group who are so concerned, due notice of such Group Extraordinary General Meeting having been given specifying the intention to propose such increase or reduction; "

"(e) in relation to any Group, increasing the contributions of or reducing the prospective Benefits to or in respect of any then existing Member (not being a Protected Member) associated with such Group (other than such a Member entitled to Frozen Benefits) unless such increase or reduction is approved by a resolution passed by a majority of not less than two-thirds of the Members (other than Protected Members) associated with such Group who are concerned and who shall vote on the matter, either personally or by proxy, at a Group Extraordinary General Meeting of the Members (other than Protected Members) associated with such Group who are so concerned, due notice of such Group Extraordinary General Meeting having been given specifying the intention to propose such increase or reduction; "

Our Members rightly see these clauses as the bedrock of security for their pension rights as set out in their contracts of employment.

Historically pensions are not subject of 'collective bargaining' so companies will have to resort to Extraordinary General Meetings if they wish for a change.

We will watch carefully how this plays out in the next couple of years.

Finding Pensions

If you moved between jobs while working you may have a pension with more than one employer. You can out how to track down and claim your money by using The Pension Tracing Service. The service is free and can help you trace a pension that you've lost track of, even if you don't have the contact details of the provider.

All you need to know is the name of your previous employer or pension scheme. But if you can, collect as much information as you can find about the employer:

- any previous names it had
- the type of business it ran
- whether it changed address
- and when you belonged to the scheme.

Ensuring you have all these details, then call the Pension Tracing Service on 0845 600 2537 who will check your information against its database of pension schemes. They should be able to give you details of the pension's administrator - you then need to contact the pension administrator to ask for your pension to be paid.

Or you can send an online form directly to Pension Tracing Service.

A depressing thought

In the same vein the Association occasionally gets letters from executors, solicitors, dependents and in one case a government department about a deceased ESPS pensioner. They get onto us a result of the our website thinking we are the pension provider.

It is always helpful for your dependents and executors to know who paid your pension and who may pay spouses or similar benefits. We would encourage everyone to make sure this information is easily available particularly with the regular takeovers, mergers etc which have taken place over the 25 years since privatisation.

If all else fails the Scheme Secretary should be able to provide this information and executors should write to ESPS c/o Capita 65 Gresham Street, London EC2V 7NQ.

I am pleased that you will be reviewing the amended selection and election process at your next meeting and I trust you will draw the attention of your trustees to our views. I would hope that as part of the review you consider the essential democratic principle behind MNDs. It has stood the ESPS well since its inception. Rather than use geography as a reason to abandon the principle it would be better for the Trust Co to consider how it would promote a candidates platform and suitability so that the electorate has a better informed choice than you currently believe they have."

What happened?

The election went ahead as planned with a trustee with nearly twenty years of effective trusteeship experience barred from standing. As a result 174 members requisitioned an Extraordinary Members' Meeting which was eventually held in May 2014. Regrettably members exercising their right to a proxy vote either failed to give an instruction to the chair or gave the chair the right to vote as he saw fit. The result was that the chair used all his proxy votes against the motion.

Remember when giving anyone a proxy vote you should always instruct the proxy how to use the vote.

It is important to restate our views

The argument that the Regulator wishes to improve the quality of trustees seems unimpeachable but we are sure he does not want this to take place at the expense of the democratic process. Trustee boards must of course ensure that all their members, elected or appointed, receive adequate and on-going training so that they may carry out their duties effectively.

Elections are of their very nature an imperfect process but are the best that a democracy has to offer - anything else is worse. We would not wish the events at UKPN to be repeated elsewhere. Members of the ESPS should be free to stand for election and not be subject to 'selection' by existing trustee boards. This will lead inevitably to the conclusion that valid but contrary views are unacceptable. The essence of democracy is the ability to freely dissent. Of course it is eminently sensible to offer any prospective candidates an information/ session of the roles, duties and responsibilities of trustees. If a potential candidate then considers the role is not for them they can withdraw before the election commences.

.All Change for State pensions

There has been much activity on the pensions front since our last Newsletter. The major piece of legislation was of course the Pensions Act 2014. This Act, the contents of which were subject to considerable amount of consultation in the preparatory stages, makes significant changes to the pensions landscape.

6 April 2016 will see the introduction of the single tier pension for new pensioners. The current basic State Pension and the Additional State Pension (S2P) will be replaced with a flat-rate pension. The Government has stated that the value of this pension will be set above the basic level of means-tested benefit which is currently £142.70 per week and will be up rated at least by the average increase in earnings.

It is the current intention that existing state pensions will not be affected and there will be transitional arrangements for people who have contributed to S2P.

The Act provides for the state pension age to gradually rise from 66 to 67 between 2026 and 2028.

The Act abolishes contracting out, a status which currently applies to the ESPS defined benefit scheme. Abolition of contracting out means that employers' national insurance contribution rate will rise by 3.4 per cent from 6 April 2016. There is provision in the legislation for employers to be able recover these costs through amendment to pension scheme contribution rates and, or, benefits accrual rates.

The good news for our working colleagues as we have already reported is that this does not apply to the ESPS groups in relation to employees who are 'protected persons'. Where companies have alternative defined benefit schemes which are contracted out and members are not 'protected persons' employers will no doubt recover the costs.

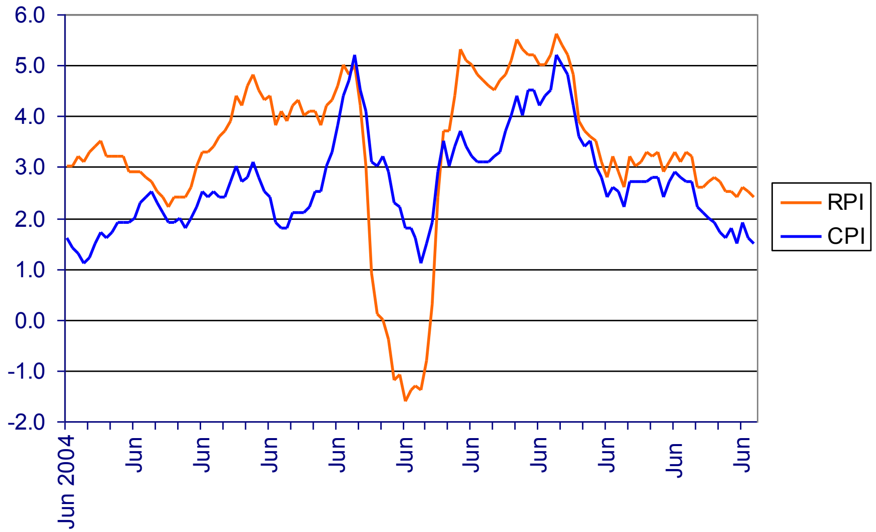
State pensions in payment will it is assumed continue to be indexed in April by the consumer prices index (CPI) for the previous September rather than the average increase in earnings. We discuss this further elsewhere in this Newsletter.

UK inflation falls back

The Consumer Prices Index (CPI) grew by 1.5% in the year to August 2014, down from 1.6% in July. Falls in the prices of motor fuels and food & non-alcoholic drinks provided the largest downward contributions to the change in the rate. The index therefore remains well below the average level of 2.5% seen in 2013 and under the Bank of England's 2% target.

The Retail Prices Index (not a National Statistic) which is the measure by which ESPS pensions are inflated grew by 2.6% in the year ending June 2014, up from 2.4% in May but again it August it had retreated to 2.4%.

12-month inflation rate for the last 10 years: June 2004 to June 201



(source ONS)

The CPI is the index now used to up rate the state retirement pension and certain other state benefits. The impact of the annual rise is better expressed by saying that a basket of goods and services that cost £100.00 in August 2013 would have cost £101.50 in August 2014. The latest information continues the trend of below 2.0% inflation during 2014.

Over the last five years, the three main contributors to the 12-month inflation rate have been food & non-alcoholic beverages, housing, water electricity,

process had satisfied an independent body that they are likely to have the necessary attributes to enable them to perform the duties of a Trustee effectively, that would be a positive benefit for all our members.

As you have mentioned in your article, the work of a Trustee is wide-ranging and increasingly onerous. The complexity of modem investment opportunities, of the valuation process (which dominates much of our work) and of managing a scheme within the ESPS has increased year by year, and is likely to continue to do so.

The rules of our schemes, which provide for the Group Trustees to decide what qualifications are required of Elected Group Trustees, have been in place for many years. The Pensions Regulator urges all Trustee Boards to exercise good governance in the processes used to recruit new Trustees and imposes onerous expectations in terms of the levels of Trustee knowledge and understanding to be reached within only six months of being appointed.

I therefore, on behalf of my fellow Trustees, take issue with your claim that every member has an unfettered right to nominate Trustees of their choice. I believe it is both necessary and appropriate, in these modem times, to amend that statement to say that any member who is able to demonstrate the required abilities has an unfettered right to put himself or herself forward for election or to seek nomination from other members.

As you have correctly reported, my Trustee Board will be reviewing the amended MND selection and election process at our December Board Meeting. We will learn lessons from the experience of those who have been involved and from the reactions of our membership. I sincerely hope that we will then improve the process for future Trustee elections. "

Our response to this letter was reaffirm our views.

"You rightly observe that your Group membership is widely dispersed. This is equally true of the membership of all ESPS groups. However in our view a dispersed membership is of itself no reason to limit the basic democratic freedom of members to nominate and elect a trustee of their choice. A third party veto in such a process, however well intentioned, cannot be allowed to override the right of members to nominate and allow that candidate to put his or her platform to the electorate.

Whether or not an elected trustee is up to the job can only be determined once in office. In any event the Scheme rules already include a right for elected trustees to remove any of their number who is considered to be ineffective or lacking in ability.

As we said in our article it is entirely appropriate to offer candidates an awareness course prior to them confirming their acceptance of nomination in order that they do understand the onerous duties on a trustee. In that respect I am happy to confirm to you that we are fully supportive of your efforts to ensure that prospective trustees are adequately advised of the responsibilities which they will be undertaking. I would suggest that existing trustees who can speak from experience carry out part of this briefing. I know from evidence elsewhere that candidates do withdraw after such a briefing.

as our pensions offer a level of security and guaranteed indexation that a defined contribution pension will not. You might of course be a in position where you might benefit. For example: if you are heavily in debt, have a short life expectancy, are unmarried and do not have dependants, or, if you would prefer wealth to an income stream, it might make sense.

To prevent you 'rushing in' it will be a statutory requirement on the transferring scheme for anyone who is considering transferring out of a defined benefit scheme to take advice from a professional financial adviser before transferring. The adviser must be independent from the defined benefit scheme and authorised by the FCA.

The government has wisely decided to retain the current ban on existing pensioners transferring out of defined benefit schemes. If too many were to do this schemes and their sponsoring companies could be faced with significant cash problems. Similarly civil servants and teachers and others in public sector unfunded DB schemes will not be able to transfer their fund out - the Treasury i.e. the taxpayer cannot afford it!

Trustee elections

In our last issue we reported regarding the decision of the UKPN Trustee to seek to validate the competence of anyone standing for election and only allow 'approved' candidates. We said at the time that we strongly deprecated this approach.

Our views produced a response from the Chairman of the UKPN Trustees

"You have presented the action taken by the Trustee of the UKPN ESPS Group in a negative way, referring to "this unnecessary and unwarranted withdrawal of member's rights".

I feel the need to respond because the UKPN Trustees have introduced this change in the Member Nominated Director election process after careful thought and for reasons which are, in our view, very necessary and entirely warranted. We have introduced these changes in the interests of the wider membership of our scheme and not just the small number of members who may wish to put themselves forward for election.

The nature of our very mature membership is such that they are widely dispersed across the UK as well as including a small number who live abroad. There is still a concentration of members in the traditional supply areas of the former Eastern, London and South Eastern companies but a significant number live outside these areas and have very little contact with other members of the scheme.

A consequence of this is that, when members see a list of names on a ballot paper for the Trustee election, few of the names, if any, are known to individual members. We therefore felt that, if members could be reassured that those who were standing in the election

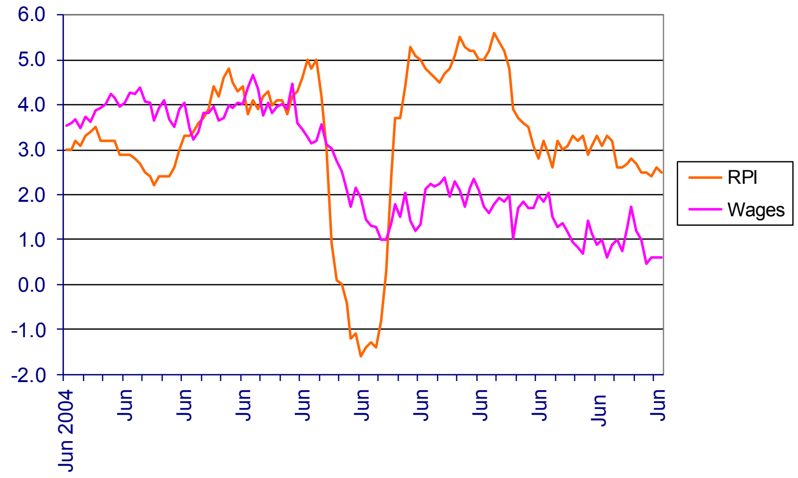
gas & other fuels and transport (including motor fuels). Combined, these three sectors have, on average, accounted for almost half of the 12-month inflation rate each month.

In the latest month, prices of food & non-alcoholic beverages were little changed on the year and made a negligible contribution to the overall rate of inflation of 1.5%. Over the last five years, the three main contributors to the 12-month inflation rate have been housing, water, electricity, gas & other fuels, restaurants & hotels and transport (including motor fuels). Combined, these three sectors have, on average, accounted for almost half of the 12-month inflation rate each month.

Which Index is best?

There is an ongoing debate as to which index is a the best measure of how pensions should be increased. For many years pension representatives have argued that pensions should be indexed to wages. Indeed the Government has now stated that the new state single pension will be up rated at least by the average increase in earnings. Is this a good idea?

12 Month Inflation rate for RPI and weekly wages 2004 - 2014



(source ONS)

Looking at the diagram which compares the RPI with the index of wages over the last ten years we can possibly see that following wages could be a mixed benefit. Over the last five years pensioners with either CPI or RPI indexation have done somewhat better that the average worker for their annual increase. In many companies wages and salaries have been fixed or even fallen. In the state sector salary increases have been limited to 1% although many will have enjoyed 'performance' increments. Certainly for the average employee the real value of wages has fallen over the last four or five years, a consequence of the massive world recession from which the UK cannot isolate itself.

So to a certain extent the choice is one of timing. There are clearly swings and roundabouts. One might argue for some form of double or triple lock so that the pensioners increase is maximised. However given the issues surrounding the long term affordability of pensions such arrangements would undoubtedly be given a ceiling for each of the elements.

Being pragmatic all political parties accept the need to keep inflation under control and the Bank of England has a specific remit in this respect. Runaway inflation is no good for anyone so the devil we know is likely to be better than one which we don't. We may resent the 5% cap now placed by many of our companies as the maximum applicable indexation but we must all hope that it is, in any event, a cap which is not reached.

Some Comparisons of Income

How are we doing as ESPS pensioners?

The one sector of the labour market where there has been no pay restraint is of course the pay of directors of FTSE 100 companies where, according to research by the think tank the High Pay Centre, the average pay has risen by15% in the last year.

Average pay in the UK is, according to the Office for National Statistics, £26,500. Four in five new jobs are in sectors averaging under £16,640 a year for a 40-hour week. The hourly minimum wage of £6.31 per hour would lead to an annual salary of just £13,124 in a year for a worker in a full-time job. Even the London Living wage of £8.80 per hour only takes this to £18,300.

The ESPS annual report no longer gives sufficient detail to determine the average pension. However the 2012-13 Report states that the Scheme paid £1,236 million in pensions to 90,046 pensioners and 29,055 dependants

This gives a rather meaningless average of £10,900. It is however some sort of measure of what the scheme provides. It suggests that full ESPS pensioners, even those who retired many years ago, will have a total pension income including state benefits at least equal to many working people.

Comfortable retirement is £15k a year or more

A recent report from the NEST (National Employment Savings Trust) says:

- Pensioners' overall satisfaction with life increases by an average of 7 per cent per extra £5,000 annual household income they have. Across the vast majority of measures surveyed, pensioners' quality of life and sense of well-being jumps significantly when they reach an annual household income of at least £15,000-£20,000.

- 43 per cent of pensioners living on a household income of £15,000-£20,000 say they are financially comfortable, compared to just 24 per cent of those living on less than £15,000

- A third of people living on less than £15,000 find it difficult to afford their household energy bills and a quarter find it difficult to afford groceries, which drops to just 15 per cent and 9 per cent respectively for pensioners with a household income of £15,000-£20,000

Women are more likely than men to be living under the threshold, with 24 per cent of women living on £10,000 or less, compared to just 10 per cent of men. Two fifths (41 per cent) of women feel their annual household income is not enough to give them the retirement they'd hoped for

New Pension Rules - Caution Advised

The recent Pensions Act gives new flexibility to how pension funds might be used on retirement.

From April 2015, the tax rules will be simplified to give people with defined contribution pension arrangements (DC schemes) unrestricted access to their savings. Drawdown of pension income under the new, more flexible arrangements will be taxed at marginal income tax rates rather than the current rate of 55% for full withdrawals. The tax-free lump sum will continue to be available.

This could make it appear attractive for current contributors to transfer from your DB scheme to a DC arrangement. ESPS contributors should take the long view. For most people retaining membership of the ESPS is likely to be their best option,