AESP NEWS

January 2012

www.aesp.org.uk

In this issue:

Don't forget that our Web site www.aesp.org.uk contains a membership and standing order form. Please encourage new members.

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

ESPS Annual Meeting

A big thank you to all those who attended this year's meeting or who returned a proxy form in support of the motion from Jack Andrews and David Laws condemning the intention to remove the right to a proxy vote.

Members will be pleased to learn that the motion was passed by an overwhelming majority.

Attendance at the meeting was not up to previous numbers approaching 150 in total including the top table and most of the members of the EPTL committees and the advisers.

There was a good debate. Several people spoke in favour of the motion and one against. The person speaking against the motion was an EPTL Committee member – an elected trustee - who seemed to be quite offended because they had spent so many hours discussing the "demolition" of the top tier and were convinced that the correct decision had been made. Voting in the meeting was 28 in favour and 7 against, so quite a few abstentions. It appeared that those who voted against the motion at the meeting were the EPTL committee members who had taken part in the decision to withdraw proxy voting. There were 1300 proxy votes - 1200 in favour and 100 against.

As you know the result of any vote at the AGM is not binding on the employers so we will have to wait to see if they maintain their stance.

The meeting heard a detailed statement from Richard Barlow about the detailed changes to the Scheme management and his briefing is reported in full on page 4.

Richard Barlow

This year's AGM was Richard's last public act on behalf of the Scheme as Chief Executive and more recently the Project Implementation Manager.

Richard now retires to 'spend more time with the family'. We wish him well and thank him for all his efforts on behalf of Scheme members over the years.

Extract from the ESPS "Annual Report and Financial Statements for the Year ended 31 March 2011"

The Major Events in the Scheme Year 2010/11 were as follows:

- The Scheme paid benefits of £1.3 billion in the year and received contributions of £1.5 billion. Whilst there has been a slowing in world markets, the past year saw continuing favourable economic conditions and positive returns on most asset classes. As a result, the value of the Scheme's assets has increased over the year. After allowing for investment income and contributions, and taking into account benefit payments during the year, the Scheme's assets ended the year £2.0 billion higher with total assets of £25.6 billion. The effect varied from Group to Group;

- The review of the operation of the Scheme initiated by the Scheme Co-ordinator, Electricity Pensions Limited (EPL) continued during the year….
  (See the detailed statement by Richard Barlow given at the ESPS AGM on Page 4 of this Newsletter)

- Only one set of amendments were made to the Scheme's provisions. These related to the commutation of member benefits in respect of pension pots valued at less than £2,000; and

- Three new ESPS Groups were formed during the year, the EPSL Group, the EDF Energy Generation and Supply Group and the Central Networks Group taking the total number of active ESPS Groups to twenty three. The former EDF Energy Group changed its name to UK Power Networks Group.

There have been a number of changes during the year in the Directors appointed to the Board of EPTL. EPTL wishes to thank all those who have acted as Directors during the year for their services to EPTL.

I also wish to place on record our appreciation of the work of the staff at EPSL, who have carried out administrative and accounting functions on behalf of EPTL, and of our professional advisers and the Scheme custodians for the support they have provided over the year.

Derek Lumb
CHAIR OF THE SCHEME TRUSTEE
Electricity Pensions Trustee Limited 19 October 2011

Briefing on the Review of the Operation of the ESPS
Richard Barlow
Project Implementation Manager

"The review has been a lengthy and thorough process, generating an enormous amount of work for EPTL, its Committees, and its advisers, but I am pleased to report that it is now essentially complete and its outcomes endorsed by both EPTL and EPL.

As previously reported, the objectives of the review have been to provide efficient and effective operation and governance of the ESPS, with further devolution of functions from EPTL to Group Trustees where this is practicable and makes good sense. The two tier ESPS structure of the Scheme Trustee and Group Trustees is retained, and arrangements for Scheme benefits remain a matter for each Group and are not changed in any way by the review. The changes relate only to the internal organisation and operation of the Scheme, and EPTL and EPL believe that they will provide a sustainable basis for the Scheme's future operation.

Further confirmatory Opinions from Leading Counsel have been obtained on the review outcomes by both EPTL and EPL since the last AGM. EPTL's Leading Counsel, Keith Rowley QC, has confirmed to EPTL that he is satisfied that the ESPS will remain a single pension scheme and a single trust, and that the revised arrangements for the constitution of EPTL will ensure that the ESPS continues to meet the requirements of the Member Nominated Trustee Regulations. Leading Counsel also made helpful comments on the amendments to the Scheme required to introduce some aspects of the review, and these comments have been taken into account in the final drafting.

The operation of EPTL itself will be simplified. The EPTL Board itself will be smaller, comprising nine Directors including an Independent Chair. The eight ordinary Directors will be drawn from an EPTL Council, made up of two Councillors from each Group, one Councillor nominated by the Group's Elected Group Trustees and one Councillor nominated by the Group's Principal Employer. Groups have already been asked to select their Council members.

EPTL has appointed Joanna Matthews of Capital Cranfield Trustees to be its new Independent Chair Designate, and Joanna will replace EPTL's present Chairman Derek Lumb as soon as the revised constitutional arrangements are in place.

As previously reported, the central support arrangements for the Scheme currently provided by EPSL will also be changed. EPTL and EPL formed a joint working party to consider the best arrangements to adopt, and concluded that – particularly with a view to sustainable provision of central services – these services should be outsourced to Capita Hartshead Limited.

A contract between EPTL, EPL, and Capita Hartshead has now been signed and will take effect from 9 January 2012. To provide for continuity and sustainability, this is a ten year contract – although it does of course have suitable exit provisions.

The key members of the existing EPSL team including Julie Miller, David Sayers, and Paul Wallis together with five colleagues will “TUPE transfer” to Capita Hartshead, where – with new Capita Hartshead colleagues – they will continue to form a discrete specialist ESPS team. The Capita Hartshead offices are conveniently situated close to the present EPSL offices in Southwark.

The services provided by Capita Hartshead will be characterised as “Necessary Shared Services” – those which arise from the central functions of the Scheme including support for EPL and EPTL, and benefit all Groups and Employers, and “Voluntary Shared Services” – those which Group Trustees and Employers can choose to take in order to undertake Group level functions, should they wish to do so.

EPTL and EPL have transformed the joint working party which advised on these arrangements, and on the contract negotiations, into a joint “Contract Monitoring Group” which will monitor the operation of the contract with Capita Hartshead. The joint Contract Monitoring Group in turn has appointed Helen Matthews, whose background is with National Grid pensions, to act as its part-time Contract Manager.

EPTL and EPL will also enter into an Administration Governance Agreement, which regulates their relationships in respect of the contract with Capita Hartshead and ensures that EPTL’s expenses on behalf of the Scheme are properly met by the Employers.

Under the revised arrangements there will no longer be a central Chief Executive of the Scheme, and Steve Bott will be standing down ahead of the contract with Capita Hartshead coming into effect.

The Scheme amendments necessary to introduce some parts of the revised arrangements are currently with the individual Principal Employers for approval. These amendments provide for reversion of newly devolved responsibilities back from Groups to EPTL in the – hopefully unlikely – event that Groups are unable to undertake these responsibilities effectively, and also provide for Group Trustees to make representations to EPTL that they have effective controls and procedures in place.

The operational aspects of the new arrangements remain as described at last year's Scheme AGM, although much detail has been added. Some of the operational changes have already been implemented. The main features are:

- The current Scheme Wide Custodian, Bank of New York Mellon, remains responsible for custody and portfolio accounting of all the Scheme's assets on behalf of EPTL, although these arrangements will be further reviewed in three year's time;
- Groups will be able to give instructions directly to the Custodian, without having to route those instructions through EPTL;
- Group Trustees are now responsible for the operation of their own Group Cash Accounts;
- Group Trustees remain responsible for their own Group Accounts;
- The Scheme Accounts will be prepared on an aggregation basis using an annual consolidation pack provided by each Group;
- The Scheme AGM will be held at a later date (as this year), in December;
- Committees of "unit holders" (Group representatives) are now in place for the Property and Forestry Sectors of the Unitised Fund;
- There will be new arrangements for investment management agreements, although these have yet to be finalised.

These changes complement earlier phases of devolution from EPTL to Group Trustees, and in particular the introduction of "Segregation" which gave Groups the ability to choose their own fund managers, the introduction of Group Actuaries which gave Groups full control over their valuation processes, and the transfer from EPTL to Group Trustees of responsibility for Group Accounts.

The change which attracted most interest at last year's Scheme AGM is the removal of the administratively complex Scheme AGM proxy voting provisions. This proposal has been further carefully considered by both EPTL and EPL during the past year, and continues to have the Directors' support for introduction following this Scheme AGM. There is a member's resolution on this matter for consideration at the Scheme AGM.

In conclusion I would highlight the objectives for the review – efficient and effective future operation and governance of the ESPS on a sustainable basis – and the immense efforts which have been made by EPTL, its committees and advisers, and also by EPL, the joint working party, the project manager, and the whole EPSL team to bring the review to a successful conclusion in the interests of all the Scheme's members."

How did your group fare in 2010-11

Individual Group reports, which will give you much more information, are available from your Group administrator.

	Assets 2011 £ million	Assets 2010 £ million
British Energy Generation	3,210	2,931
Carillion	51	50
Drax Power	132	119
EA Technology	59	58
EDF Energy Generation and Supply	434	-
Eggborough Power	82	73
Electricity North West	880	840
E.ON UK	5,536	5,091
EPSL	7	-
First Hydro Company	69	57
International Power	137	111
Magnox Electric	2,164	2,010
Manweb	860	783
National Grid Electricity	1,601	1,530
Northern Electric	1,043	982
Powerhouse Retail	148	142
RWE npower	3,754	3,577
Schneider (formerly AREVA)	16	14
Southern Electric	1,247	1,178
UK Power Networks (formerly EDF Energy)	2,258	2,410
United Utilities plc	309	279
Western Power Distribution	1,359	1,202
Market Value of Group-specific and Unitised Funds	25,356	23,437

Central Networks Group created for former members of E.ON UK in December 2010 did not have any assets as at 31 March 2011.

September 2011 consumer price indices – and the index that matters

- CPI annual inflation stood at 5.2 per cent. The only other time it had reached that level was in September 2008.
- Annual inflation as recorded by the retail prices index (RPI) stood at 5.6 per cent in September, up from 5.2 per cent in August. This was the highest RPI annual inflation rate for over 20 years (it was last higher in June 1991 when it stood at 5.8 per cent)

Scheme Pension Increase

As members will be aware the index used by the Scheme is the RPI. However the Rules permit the employer to limit the increase to 5%. Your increase next April will therefore depend on the deal your group trustees will have negotiated with your company. Because RPI was 5.6% the increase on the greater part of your pension cannot be less than 5%.

State Pension from 6 April 2012

In accordance with the Chancellor's promise to use the higher of CPI or the earnings index the basic State Pension will rise next April by £5.30 from £102.15 to £107.45. Had the figure been pegged to RPI it would have been 42 pence more. Any additional pension or Graduated Retirement Benefit will increase also by 5.2% in line with CPI.

The non-contributory pension and pensions based on a spouse or civil partner's insurance will rise to £64.40.

Other allowances of interest:
Attendance Allowance: Higher rate £77.45 Lower rate £51.85

Disability Living Allowance:

Care component: highest £77.45: middle £51.85: lowest £20.55

Mobility component: higher £54.05: lower £20.55

Opinion

As the New Year begins we wonder how many of you think very deeply about the future of your pension and your pension Scheme? So long as the money arrives in your bank account regularly, we guess that most members are prepared to leave the running of the Scheme to the trustees who you elect periodically and who you trust implicitly. Of course you are right to do this. The Schemes would not be able to run without the dedication of these people and the sometimes-considerable time that they devote to our wellbeing.

However, how much do you or should you know about the Scheme which pays your pension? For instance is the Scheme solvent? Does it possess sufficient cash to continue paying for as long as you need it? If not, how is the shortfall to be made up? What happens when another employer buys the business, including the existing pensioners? Is the employer having to put more into the Scheme than it originally planned? What happens if there is not enough cash at any time in the future? How is the Scheme now organised? These and many other questions might occur to us all periodically but we have trust in the past and present managements and we dismiss them from our minds.

Let us say at the outset that we are not suggesting in any way that members should be fearful of the total collapse of any of our ESPS Schemes. What we are saying is that we all should have a substantial interest in these matters because we depend upon them and our pensions are a well earned, and paid for, source of income.

So how do we find out about some of these matters? Well, firstly, let us briefly look at organisation. Our ESPS Scheme, when restructured in 1990, had two “tiers”. In very simplified form this consisted of an upper “governing” tier which controlled what the “second tier” Group Schemes did, including the Rule Book, investment rules and general administration etc. The second “operating tier” was in 20 or more units each called a Group Scheme and related to a single employer or workforce. Trustees were, and are elected, to the second tier Schemes and they, in turn, elect some of their number to serve in the upper tier. In both parts the elected and employer appointed trustees are jointly responsible for the decisions.

In recent years the organisation has changed in that the Group Schemes have been given much greater responsibility to run their own affairs, leaving a much-reduced role for the upper tier. The Association has some concerns about these changes and the manner in which they have been carried through without proper consultation. You may have noticed that Proxy-voting at Scheme’s AGM has recently been withdrawn. This and other matters have been referred to the Pensions Ombudsman and his decision is awaited.

The general effect of the changes has been to concentrate all activities in the arena of a particular employer, giving that employer greater power over decisions affecting its group of members.

How can you find out about your particular Group Scheme? Well firstly, it has to produce an Annual Report which is available to all members of that Scheme on application to the Scheme Administrator. His or her name can be obtained from your pensions office or the employer. The upper tier also produces a similar Report for the Scheme as a whole. These documents, together with several others are usually ready for issue by the autumn of the year ended 31 March.

Some Groups hold Annual Meetings and the Scheme as a whole holds an AGM in London in December. AESP urges members to attend these meetings, to ask questions and to put forward motions for discussion and resolution; only in this way will your trustees know what you really think.

Slightly changing the subject, how much do you know about the ESPS Scheme Rules? These date in some cases to before Privatisation and they enjoy a degree of statutory protection; the employers cannot change the benefits or contributions provisions except by an unlikely two-thirds vote in favour by the "protected" pensioners. They can however change the other rules and sometimes do so. The protection described here is given by the Protection Regulations contained in the 1989 Electricity Act. The Association is certain that any attempt to repeal these Regulations would have a serious effect on supplies!

Again, let us remind you that the Rules say that the employer must apply any RPI increase (at the end of September the previous year) to pensions from the first of April. Unfortunately, the relevant rule also says that any employer may restrict this increase to 5% in any year. Up to now, this has not been applied in any case that the Association is aware of; even in 1990, when RPI was 10% it was fully paid. Unfortunately, some of our employers are now taking a greater interest in this Clause and some of us may not get the full 5.6% this year. We must emphasise that it will be up to your trustees to fight for this increase but they do not have the right to change the rules and may therefore have to abide by them

As we enter 2012, with its likely economic downturns and increased unemployment prospects, we must remember that all companies are affected by bad results and at those times they are likely to look for all means to reduce their expenditure. The job of your trustees and of this Association is to ensure that this Scheme survives the current crisis and that we all enjoy the pensions that we have paid in for and expect to receive. Please continue to support us in this endeavour. And a happy New Year to you all.

From the press

RPMI acquires EPAL

Pensions administrator, RPMI, announced on 15 November 2011 the acquisition of Electricity Pensions Administration Limited (EPAL) from E.ON UK plc.

It is planned that around 30 staff will remain at their current location in Coventry. RPMI also takes on the administration of EPAL's Electricity Supply Pension Scheme (ESPS) current clients including the 30,000 members of the E.ON scheme.

Say one thing – do another or the Labour Party adopts CPI for its pension scheme.

"Following the UK Government's announcement in summer 2010, the inflation index to be used to derive statutory pension increases has been changed from the Retail Prices Index (RPI) to the Consumer Prices Index (CPI). Due to a number of differences between the indices, including both constituents and construction, CPI is expected to be less than RPI over the long-term which means that the defined benefit obligation has reduced. Following discussions with our pension advisors, we have recognised the reduction as an assumption change. The change has been recognised at 31 December 2010 and the overall impact of this is a reduction of £4.2 million in the value of the defined benefit obligations."

Source
The Labour Party Financial Statements for the year ended 31 December 2010

Electricity Association Services

The complaint to the Pensions Ombudsman about the annuities purchased in 2010 is still with the Ombudsman. He has agreed to consider:

"Electricity Association Services Limited, an employer in relation to the Scheme, failed to ensure that the buy out policy purchased with Legal & General provided full RPI increases as promised."

Joining the Association of Electricity Supply Pensioners cannot be simpler. Complete the form below and send it to:

AESP PO BOX 64 ASHTEAD KT21 2YS

I apply for Membership of the Association of Electricity Supply Pensioners and enclose a completed Standing Order Mandate.

PLEASE USE BLOCK LETTERS

Surname:		Title:	
First names:			
Address:			
Town		postcode	
Pension Group or former company:			
I am a:	• Pensioner	• Contributor	• Deferred pensioner

STANDING ORDER MANDATE
New Instruction

To ______________________ Bank

______________________ Branch

Account to be Debited

Sort Code							Account Number								

Account Name	

Beneficiary Details Association of Electricity Supply Pensioners

Barclays Bank Plc Sort Code **20-29-90**

Ashtead Branch Account Number **20286435**

REFERENCE (please use name and initials) **2012/**

Payment Details

AMOUNT OF FIRST **ANNUAL** PAYMENT **£10.00 Now**

AMOUNT OF USUAL **ANNUAL** PAYMENT **£10.00 on 1 August annually thereafter**

signed: ______________________ Date: ____________

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