AESP NEWS

September 2010

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For those who have not executed a standing order a copy can be downloaded from our website. If you haven't paid yet cheques should be payable to AESP and sent to PO Box 64 ASHTEAD KT21 2YS.

The **ESPS AGM** will be held on Wednesday, 27 October at 1.30 pm at the usual venue the offices of Freshfields, Bruckhaus Deringer, 165 Fleet St., EC4. This will be your opportunity to hear more about conclusions of the review referred to by Richard Barlow in his article.

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

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Comment

Well we have a new government. It is perhaps not the government anyone intended but we still have to live with its decisions.

That the Government has inherited problems no one doubts. Solving these problems will put pressure on all resources. Resources everywhere in the public sector are going to be cut which means more pressure on those who are at work. We are going to find some resources provided for pensioners at risk as council budgets are squeezed. So, if you need them or can use them, make the most of them whilst they still exist.

It clearly means more people are going to be asked to work longer. This seems to be a problem for some but my personal observation is very different. The opportunity to retire from full time employment creates an opportunity to do other things. Many people actually carve out a second career often in the voluntary sector where their skill, enthusiasm and expertise are greatly appreciated. Perhaps my sample is unrepresentative. I am surrounded by retired people whose diaries are so full of paid and unpaid activity that you have to book them up to a year ahead.

On the other hand others are more than happy to continue to work for the same employer if he will let them. What perhaps will be a good thing is the removal of the Default Retirement Age. This is currently 65 for companies who do not have an earlier retirement age. Age UK claims tens of thousands of workers were forced to retire in 2009 causing an estimated loss of £3.5bn in economic output at a time when every pound is needed to boost public finances.

Older people may not be as quick to respond to situations but their response is often carefully considered. They have learnt perhaps that ‘let it sweat’ is often a good maxim. Perhaps some of the new Secretaries of State and ministers could have adopted this approach instead of rushing out new ideas without proper consideration. They might have learned too which one of their highly paid departmental and non-departmental officials’ advice could be trusted or whose staff work could be relied upon.

Pensions as we discuss elsewhere in this issue have become a major issue. Again a rapid announcement has left pensioners and pensions professionals wondering what the government actually intends. As pensioners we need to really alert as business representatives like the CBI have been quick to sense an opportunity and are looking for an all embracing Act which will aid a closing of the so called pensions black hole. There is something like £100 billion at stake so the CBI and others won’t be slow to make the case. The lawyers will love it too!

The ESPS Twenty Years On
By Richard Barlow

20 years on from privatisation, and having stepped down earlier this year as Chief Executive of the Scheme, Neville Wrench has asked me to set out some personal reflections on the ESPS and pensions generally.

The first point to make is that, perhaps to the surprise of some, the ESPS is still here. It still has around 200,000 members, and between them the 20 Groups had over £23 billion of assets under management as at 31 March 2010.

The Employers involved in the ESPS have changed almost beyond recognition. Hive offs saw the number of Groups rise from the original 17 to a peak of 29. Mergers have seen that number reduce to the current 20.

The Employers and Groups which have resulted from corporate restructuring are extremely diverse. The largest Group has over 50,000 members; the smallest has about 100 members. Some Employers have specialist pensions sections; others make 100% use of bought in resources.

The environment within which occupational pensions are provided is also unrecognisable from 20 years ago. Government initiatives have majored on defending those lucky enough to already be members of defined benefit schemes but appear, probably accidentally, to have largely killed off the prospects of defined benefit provision for future generations. Too much security for members means too high costs for Employers. Increased life expectancy has also put strains on all forms of pension provision.

It was clear from the outset that the focus of the ESPS after privatisation would be on the Group level. The ring fencing of the assets and liabilities of each Group, and the formation of the Group Trustee bodies, guaranteed this. The Groups in consequence have separate benefit provisions, separate actuarial valuations, separate investment strategies, separate fund managers, and separate Group reports and accounts. It is to the Group Trustees, not the Scheme Trustee, that members need to address their questions.

In some respects the ESPS Groups are similar to the defined benefit occupational pensions sector generally. The surpluses have gone. The Groups are pretty much closed to new members. Participation in the ESPS is no longer a core part of Employers' human resources strategies.

In other respects however the ESPS remains stronger than many schemes. The quality and commitment of Trustees is high, and there is usually strong competition in Trustee elections. Third parties are keen to do business with the ESPS so generally provide high standards of service at reasonable cost. Controls and procedures are generally robust and effective. Employers continue to be willing to put time and effort into the ESPS both at Group and Scheme-wide level.

Given all the changes it is timely to consider where the ESPS is going next, and the Employers have grasped that nettle by undertaking a comprehensive review with the help of independent advisors. The Employers' conclusions are currently the subject of consultation with the Scheme Trustee and the Group Trustees, and it would be wrong for me to tell AESP members more than other ESPS members about those conclusions. I can confirm however that the proposals retain the two-tier structure of Scheme Trustee and Group Trustees, and relate only to the internal organisation and operation of the ESPS – they do not impact on benefit structures, which remain a matter for each Group.

The timetable for consideration of the Employers' proposals aims for conclusions to be reached by the end of September this year on overall principles, and by the end of March 2011 so far as application in each Group is concerned. The Scheme Trustee has been actively considering the proposals through its Committees, with inputs from Group Trustee bodies, during the course of this year. An update will be provided at the 2010 Scheme AGM and in Groups' own parallel communications.

My personal objective for the Employers' review and the consultation with Trustees is that we achieve sustainable arrangements which meet the diverse needs of all the Groups with minimum central bureaucracy and cost. We need the primary effort on pensions to be at Group level where it has most impact, and we need as much of the pensions spend as possible to be on funding deficits rather than paying for administration – but we also need to ensure that reform maintains high standards of governance and retains the concept of a single ESPS.

So far as the future of pensions generally is concerned, I have worked hard through the National Association of Pension Funds to defend and encourage the continuation of defined benefit schemes open to new members. I fear that battle is now pretty much lost – although it is never too late for Government action to transform the pensions environment. It requires decisive action to reduce regulation, encourage pension saving through a favourable tax regime, and accept that any attractive investment for the future has to involve a downside risk. We now have a new Government, but whether it will prioritise really decisive change to the pensions environment remains to be seen.

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Changes for the Better!

ESPS currently comprises some 20 different pension schemes gathered together under the “umbrella” of The Electricity Supply Pension Scheme and you will see from the accompanying article by Richard Barlow that substantial changes are afoot which, however they may be described, are likely to reduce the influence of the central “upper” tier of our two-tier scheme in favour of greater control by the local Group Scheme trustees.

As is normal on such occasions, this is a curate’s egg situation; some of the changes already completed have merit. The transfer of investments to local management has given the local trustees greater power and made them more accountable to members for their actions. However, it is essential to bear in mind that we have members based in a single industry – electricity supply - with common problems. If we eventually reach a stage where the 20+ schemes each operate on separate hymn sheets it will be even more difficult than at present to discuss and resolve common problems, to reach common conclusions and to keep a common benefit structure. We feel that members and trustees should treat any future organisational changes with caution.

Obviously, such organisational changes, coupled with the inroads already made by foreign companies into our industry since Privatisation will be of concern. Unfortunately, trustees have limited power to operate within their local Schemes and for their particular Scheme members and in this time of national crisis with the Government threatening numerous cutbacks, including pensions, a wider view is essential – hence AESP, the Occupational Pensioners’ Alliance, The National Federation of Occupational Pensioners etc. All these organisations take the wider view across pensions matters nationally and they can be used to supplement members’ and trustees’ information. Your Directors will continue to impress upon trustees the help that can be given by these organisations.

We have highlighted the importance of the Electricity Protection Regulations in past newsletters and their importance to all our members cannot be stressed to highly. Any attempt by Government or individual employers to repeal these protections could seriously affect the benefits currently being afforded by our schemes. It is for this reason that AESP must maintain sufficient resources to mount a legal challenge if this occurs. Your continued support of the Association is therefore vital and the recruitment of new members remains a priority.

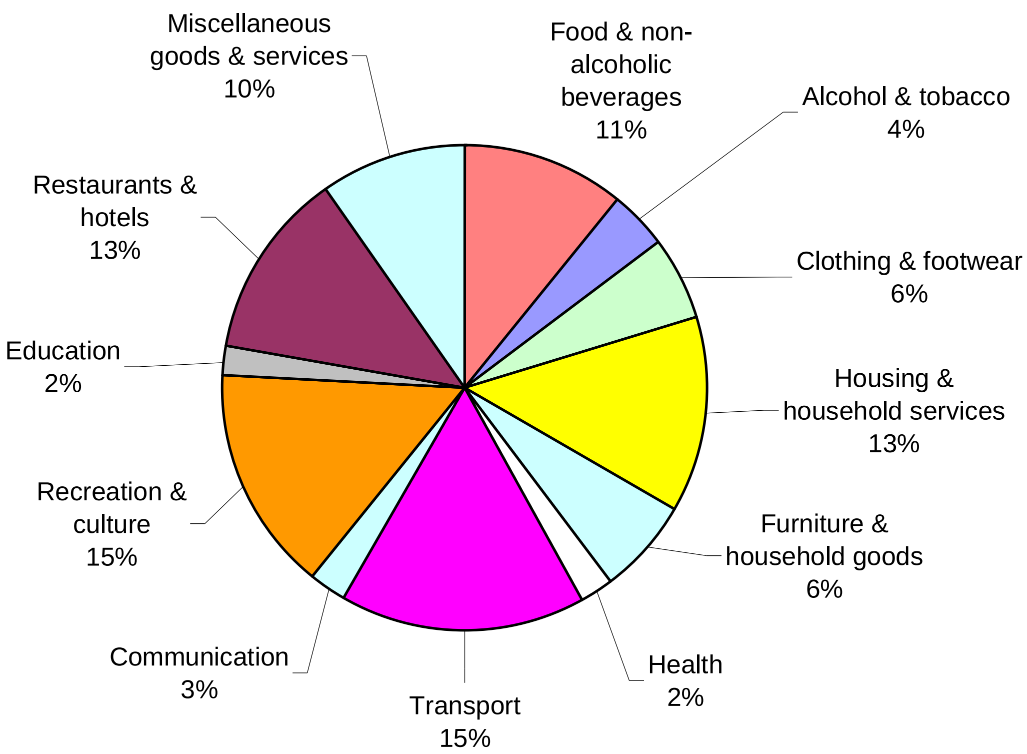
The knotty question of CPI/RPI is also of concern. The Government’s pronouncements seem to be somewhat confusing. ESPS pensions are currently up-rated annually in line with the RPI at the end of the previous

September with a “cap” at 5% if companies are mean enough to apply it. What if we are obliged by Government to change our rules to substitute CPI for RPI? The result would be a steadily reduction of pensions by stealth – something which the ruling parties complained bitterly about at election time! Trustees, members and AESP will be opposed to such a move but these days it is necessary to put feet on the pavement and demonstrate about such matters! Your AESP Directors are alive to many matters affecting your pension and we thank you for your continued support, without which our voice cannot be heard. Keep well!

JCA

Cause for Concern - CPI explained

The Chancellor announced that pensions and other benefits will be linked to the CPI. What is it? Well according to the Minister the CPI "works as a better match against pensioners' spending patterns over time and would provide stability." We disagree. It is not a good measure of most pensioners’ expenditure.



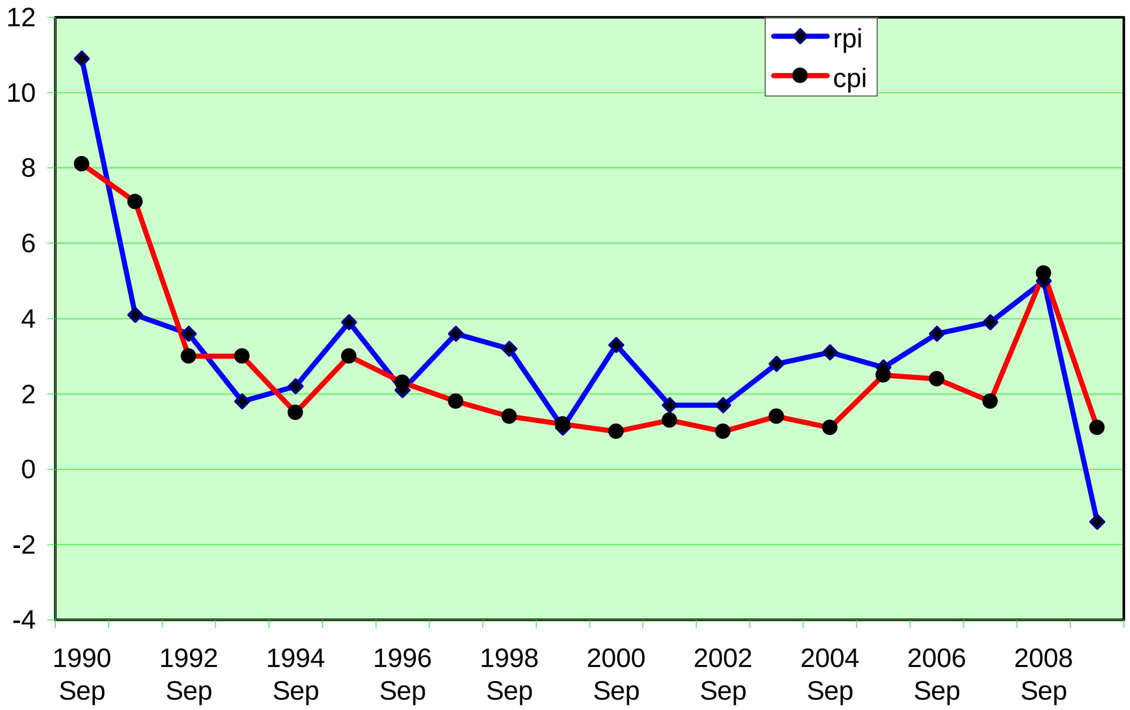
Well over 50% of the CPI is unrepresentative of the spending power of someone with an average ESPS pension and average state pension let alone those poorer off. As with the RPI many of its components are far from being the typical of the spending of pensioners. It excludes important expenditure such as council tax which has run away in the last few years. It provides a lower increase on average - see second chart.

This announcement that all pension benefits will be limited to CPI indexation may well have caused undue concerns. All our pensioners should be aware that under Rule 41 pension benefits can not be reduced. The worst that companies can do is to limit future annual increases to not more than a 5% RPI inflation, which at least two companies have already done. Unless the CBI gets its way!

The Minister's department had to issue a clarification that said, most significantly, that the new proposals do not affect most private sector occupational schemes that offer inflation protection above the statutory minimum. Even where it does apply the changes also apply only to benefits that accrue from next April; anything earned to date is protected.

RPI vs CPI over the last twenty years

It might be instructive to look to see what the difference between CPI and RPI actually means.



Over period the average September RPI was 3.15% whereas the September CPI average was 2.56%. If a pensioner had been receiving a pension of £1000 for a full year in March 1991 they would now have a pension of £1,875. If CPI had been used throughout that period they would be £223 worse off bearing in mind we received no increase this April because of the negative RPI in September 2009.

How could our sponsoring companies view this Government decision? We have already said Clause 41 protects benefits. The shift from RPI to CPI cannot apply to benefits already accrued. Section 67 of the 1995 Act also says employers cannot reduce accrued benefits without the permission of the scheme member so even deferred pensioners should be OK.

Of course indexing to CPI would be of great benefit to the employers in that it would reduce future scheme deficits or increase scheme surpluses although within the ESPS the latter is a very unlikely concept at the moment.

If a man is retiring in 2012 at age 65 he has a predicted life expectancy of 21 years. Assuming he has a pension of £10,000 over his life the sponsoring company/trustees would save over £17,000 if CPI replaced RPI.

Put it another way with 43,000 people currently contributing the pension funds would save over something in excess of three quarters of a billon pounds by applying CPI rather than RPI, even more if CPI inflation were to be limited to 2.5%. This is funding which the companies could expect to save in terms of deficit payments to trustees.

Everyone must be concerned at the present uncertainty. The Pensions Regulator in a statement (21 July) regarding CPI has said "Trustees should plan to communicate with members on the impact, as soon as possible, once known, even if the impact is likely to be negligible. They should also give serious consideration to an interim communication, to assist members who may be faced with decisions on transfers or retirement planning, or may be concerned about press coverage."

Some highlights from the Budget

From April 2011 the basic state pension paid on our National Insurance contributions will rise in line with earnings or the CPI (whichever is higher) – and by at least 2.5% in any case. And, for 2011 only, if RPI is rising more rapidly than any of those then it will be used instead. The rest of the state pension such as SERPS will rise with CPI.

Given that almost all of the public sector and, we suspect, most private organisations will be giving small, or more likely no, pay increases in the next few years (main board directors and consultants apart) the promise of paying a pension increase in line with earnings rings fairly hollow at the present time. We cannot deny we have previously argued for such indexation. The key point here of course is if it had been applied during the last twenty years we would all be in a better position to stand only the small increases likely in the next few years.

The state pension age is already due to increase to 66 between 2024 and 2026, but the Chancellor has announced a review of this timetable, and it is widely expected that the change will be brought forward. The government will also start consultations soon on how quickly to phase out the Default Retirement Age from April 2011.

Council Tax Some good news in the gloom. Council tax will be frozen for a year - 2011/2012, which will be some relief.

Winter fuel payment will not be changed this year – but to qualify you have to have been 60 by 5 July 2010.

Free prescriptions The qualifying age stays at 60 – but not for long. It will probably rise and be linked to the rising women's pension age.

Get your Benefits Every pensioner should be alert to the benefits which are available and after years of toil should not be embarrassed to seek them if they are needed.

Attendance Allowance is a tax-free allowance for people needing care on a regular basis; it has been increased to £47.80 per week or £71.40. The carer's allowance is £53.90. Don't be reticent in seeking either.

Don't forget that Income Support provides a minimum weekly guarantee for a single person of £132.50 or £202.40 for a couple.

Discussions with UNITE

Last year the AGM agreed that we might start negotiations about a merger. UNITE has now become the National Federation of Occupational Pensioners (N.F.O.P.) having sold it rights to the name to Unite the Union.

Our discussions have been very limited for a number of reasons but some progress has been made. We hope to report more fully in our next Newsletter

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Transferring your pension rights. Deferred pensioners be warned

The Pensions Regulator (TPR) and the Financial Services Authority (FSA) have issued a warning that recommendations on pensions transfer, even with an enhanced payments, must be in your interest. It cannot be assumed that advice from inside your company about your pension will be fair and unbiased.

The TPR and the FSA have reminded advisers that conflicts of interest may arise if they have links to the sponsoring employer's advisers or are remunerated by the sponsoring employer.

Employers making enhanced transfer offers to their scheme members, and so having a financial interest in the outcome, should ensure that any communications are clear, fair and not misleading. Offers should be constructed in an open and transparent manner, and in full consultation with the scheme trustees. Any offer should include the provision to scheme members of independent and impartial financial advice.

EdF Networks to be Sold

It is now common knowledge that EdF, having bought British Energy and its nuclear stations from the Government for £13bn, is selling its London, Eastern and South Eastern networks businesses.

Some 27,000 members of our pension schemes are affected and, at the time of going to press, ESPS and the company's alternative additional scheme members have been advised that that the trustees concerned have reached agreement with EdF to impose on the successful purchaser a requirement to run the schemes and to meet the existing deficits.

The preferred bidder in this case is a Hong Kong based company, the Cheung Kong Group. This company already partly owns Northern Gas and has a substantial interest in Cambridge Water as well as owning Hong Kong Electricity and similar companies in China, Canada, Australia, New Zealand and the Philippines.

Trustees have the unenviable task of negotiating with new employers to get the best result for their members but, unfortunately, they cannot normally interfere in the actual business transactions; in this case they seem to have done rather well.

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A burden for our grandchildren?

It is now widely accepted that in the future there will fewer employed people generally and more retired people. There is concern that some people will be retired longer than they worked. A recent Office of National Statistics (ONS) discussion paper suggests that the net present liability for already agreed pensions could be in the region of £1.17 to £1.35 trillion (that's 12 noughts) or £20,000 for every man, woman and child. But the data is no more recent than 2004!

At the same time there is every sign that young people are making less of an effort to save for their retirement. Companies everywhere are withdrawing final salary schemes or significantly reducing benefits to career averages. Mostly now only defined contribution schemes are organised with companies limiting their commitment to matching an employees contribution up to 5 or 6%. Even with an annual overall 12% contribution from the age of 25 the retirement benefit at age 65 (or later) will be far short of what many of the current generation of pensioners has achieved.

One of the results of this is that government has started to look at ways to reduce this future burden. We saw this a couple of years ago when OFGEM started to look at the pensions component in the distribution price review. The initial justification at the first meeting was that the presenter's public sector pension arrangements had been modified so it was right to look at others. We commented on this in a previous Newsletter.

The Coalition Government has stated that it intends to create 'fairness, simplicity and long-term sustainability of the pensions tax regime'. I am sure that will be loved by the pensions professionals but when you are just starting out at work what does a pensions tax regime mean to you? Your concerns are getting established at work, a family possibly and housing definitely.

More must be done to encourage people to save for retirement. Everyone must recognise that pensions savings are just deferred salary. It is not just the responsibility of government, but also of employers who must make pensions saving attractive. Government has said it will try to set a stable framework for the long term. This has not been the experience of the last thirty years certainly, with chancellors of all complexions dipping into the pensions funds. We can but hope! ■

ASSOCIATION OF ELECTRICITY

SUPPLY PENSIONERS

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The Thirteenth 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 28 September 2010.

Light refreshments will be available from 1.30 p.m.

1 To receive and consider the Chairman’s Report, the Accounts for the year ending January 2010 and the Fund Examiner’s Report.

Resolutions

2 To authorise the Council to appoint a Fund Examiner and to fix the remuneration.

Election of Council

3 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, Dr Neville Wrench.

4 Mr Flude and Dr Wrench 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 22 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.

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