

A Healthy and prosperous New Year to all our members.

Good News - The April pension increase will be based on the September RPI of 4.6%.

In April 2011, basic state pension is to rise in line with the retail prices index (RPI), rather than the consumer prices index (CPI). This also gives a 4.6% increase, rather than 3.1%. So the basic rate of state pension rises by £4.50 to £102.15 per week.

The lower (CPI) rate will be used for other state benefits for 2011.

In this issue

- Comment
- The ESPS Annual Meeting October 2010
- Group Assets
- EdF Energy Group
- RPI vs CPI - The debate continues
- Want to Work
- Additional state pension follows CPI

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

Comment

The last sixth months have been a confusing time for the pensions professionals and a worrying time for pensioners and those saving for a pension.

We all know that the country is faced with serious economic problems. The coalition government is intent on reducing expenditure funded by taxation to what it considers to be a more realistic level. We will not all agree with what is being done and whether what is being done is right in terms of the level of reduction, the pace of reduction or where the reductions should occur. As pensioners however we will be only too well aware that the spending power of our limited incomes will fall further in real terms.

As we noted in our last Newsletter one of the Chancellor's first acts was to announce that 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. Fortunately for 2011 the basic pension, but only the basic pension, will rise by 4.6%. The rest of the state pension such as SERPS will rise in line with CPI which was 3.1% in September 2010.

This decision was no doubt influenced by the political desire not to be exposed to the problem faced by Gordon Brown when he announced a 75p rise in the basic state pension. However the decision to link state pensions to CPI rather than RPI has worried all pensioner organisations.

As pensioners we are all going to suffer from the government's economic policies. The cost of the VAT increase and fuel duty rise has seen petrol prices reaching £6 per gallon. Some companies have seized on the VAT increase. A VATable item costing £1.99 last month should now be priced at no more than £2.04 not £2.10 and certainly not £2.49.

Other factors will almost certainly affect us such as the recent serious weather events around the world. The Queensland floods have already affected the world price of coal, which will inevitably drive up other fossil fuel prices and be reflected in our gas and electricity bills. The loss of the Sri Lankan rice crop will affect the price of what is a basic commodity in many parts of the world. Other harvest failures will also affect world commodity prices.

Fortunately there still seems to an element of competition between supermarkets. However many supermarket 'bargains' are too big for single pensioners or couples. BOGOFFS are not attractive and you should look carefully when offered bigger means cheaper, it often isn't! Perhaps if you still have local stores, slightly more expensive at first sight, you may get a better service and a better deal. It would do no harm to look!



The ESPS Annual Meeting October 2010

The meeting was reasonably well attended and two subjects came up in members' questions namely, CPI and Group AGMs.

Both topics were well debated and well supported by a number of speakers. It was confirmed that that next April's pensions increase would be based on the September RPI of 4.6%. It was explained to the meeting that the ESPS clearly uses RPI as a method of indexing pensions and any change to any other index would only be possible as result of legislation requiring pension schemes whose rules specifically use RPI to change to another index.

Dave Laws stressed that EPTL should do everything possible to fight any move to require a change in the Rules to use CPI. The mood of the platform was one of "let's move on" and this was said several times by the Chairman. In the end, after several members had spoken in favour and had received the support of the hall, Jack Andrews suggested directly that EPTL write to the Minister advising him of our members' opposition to the enforcement of CPI.

We were greatly opposed to the suggestion sprung on the meeting that proxy voting at the AGM be abolished. With membership spread to the four corners of the Kingdom and beyond a proxy vote is the only way a many members can express an opinion. This decision by the companies is a clear denial of democratic principles on the spurious issue of cost. It is a step too far!

There was a presentation by Richard Barlow on the proposed administrative changes to the ESPS (see later article) in which he stressed that the review related only to the internal organisation and operation of the ESPS. It did not impact on benefit structures which remain a matter for each Group.

The overall scheme investment performance, with a better economic background saw an improvement in the value of Scheme assets. At the end of March 2010 the market value of the Scheme assets was £23,347 million and increase of £4,289 million. In addition to regular employer and employee contributions companies paid in some £513 million in deficit repair contributions mainly as a result of agreements reached as a result of the 2007 actuarial valuations. Members will need to review their own group reports to understand how the group's investments performed but the table shows individual group assets values.

REVIEW OF OPERATION OF ESPS

In our last issue Richard Barlow reported that the Scheme Trustee and Group Trustees were being consulted on a major review of the operation of the ESPS undertaken by the Employers. This is the text of Richard's presentation

“The Employers’ proposals are intended to address efficient and effective operation of the Scheme and its governance, twenty years on from privatisation, with emphasis on the further devolution of functions to your Group Trustees where this is practicable and makes good sense.

The proposals retain the two tier ESPS structure of Scheme Trustee and Group Trustees, and do not change the arrangements for Scheme benefits in any way.

Consultation with EPTL on the proposals was initiated at the Scheme Trustee Board meeting on 20 January 2010 and at a workshop for EPTL representatives on 15 February. The hard work of reviewing the proposals in detail then took place in EPTL's three Committees – the Audit Committee, Investment Committee, and General Purposes Committee, which between them have so far met more than a dozen times this year.

The individual Employers were also asked to initiate consultation on the proposals with your Group Trustees in January, and a deadline of 31 August was set for responses. In practice, responses came in throughout the year, with the feedback from Groups being reported to EPTL's Committee as it arrived. The final response was received on 11 October.

The Employers' proposals were set at a “high level”. They suggested what functions should be performed at Group level, and what functions should be performed at Scheme level, and made broad suggestions on how the changes might be achieved, but they did not lay down detailed control arrangements or procedures.

As well as assessing whether or not they support the proposals, therefore, the Trustees with their advisers have also been developing all the detailed arrangements which are necessary to make the revised arrangements work.

Back in March, the General Purposes Committee recommended that EPTL should seek an Opinion from a Leading Counsel that the proposed revised arrangements, as reviewed by EPTL and with all the details filled in, were satisfactory, so as to provide assurance to the Trustees – and to members – that this is the case.

An initial consultation was held with Leading Counsel on 1 September. The crux of Counsel's view is that he sees no reason why it should not be a proper use of EPTL's powers to take the steps necessary to implement the proposals as currently formulated. However, a separate consultation is being arranged on investment aspects, and a final Opinion will then be sought on completion of the review.

The main outcomes of the review, subject to Counsel's final Opinion, are as follows.

The current Scheme-wide Custodian, the Bank of New York Mellon, will remain responsible for the custody of all the Scheme's assets and for portfolio accounting for at least a further three years. During this period the Custodian will treat the Group Trustees as if they were its direct customers, even though the formal contractual arrangements will remain with the Scheme Trustee.

After the three years, and following further careful review, a decision will be made on whether it is practicable and desirable for each Group to appoint its own Custodian and portfolio accountant.

Group Trustees will be able to give instructions to the Custodian to open new accounts and transfer assets between Portfolios directly. However, Groups which prefer to use a central service to give these instructions for them will still be able to do so.

Group Trustees will become responsible for the operation of their own Group cash management accounts – the accounts which are used to track all the movements of monies, including contributions and pensions payments, into and out of the Scheme.

Group Trustees will remain responsible for preparation of their Group Accounts, and will remain free either to produce these at Group level or, if they prefer, to have the Group Accounts produced for them through a central service.

The Scheme Accounts will be produced in a new way. Instead of being prepared in parallel with the Group Accounts, they will be produced by aggregating all the sets of Group Accounts. The Group Accounts will therefore become the primary documents, although the Scheme Accounts will continue to meet statutory needs.

The aggregation approach to producing the Scheme Accounts – which will not look any different – means that these cannot be prepared until all the Group Accounts are finalised. This will lead in turn to a later date for the Scheme AGM, which receives the Scheme Accounts. The AGM will be held in December rather than in October from 2011.

This AGM will continue, albeit later in the year, and will have the same business including the provision for members' resolutions. However, it is intended to remove the administratively complex proxy voting provisions. Members who wish to vote at the AGM will need to attend in person.

It is intended that there will be new arrangements for investment management agreements, with fund managers contracting separately with the Group Trustees and with EPTL, rather than through a tripartite template form investment management agreement as at present. This is a change that EPTL was working on before the Employers' review took place.

The Unitised Fund Property and Forestry Sectors will have closer relationships with the Groups which hold units in them.

The operation of EPTL itself will be simplified, reflecting the changes in its responsibilities both over the years and as a result of the review. It is also expected that EPTL will have an independent Chair, instead of the Chair being nominated by the Employers.

Arising from the devolution of some functions to Groups, and the simplified operation of EPTL, the central support arrangements for the Scheme currently provided by EPSL will also be simplified. No decisions have yet been made on what those simplified arrangements will be.

The original plan was for the changes I have described to essentially take place from 1 April 2011. In the meantime, the practical arrangements necessary to put them into effect would be made both centrally and in each of the Groups from October 2010 onwards. In practice the consultation process with Groups and EPTL has taken longer than planned. EPTL has therefore agreed to reconsider timescales at its next meeting.

At its meeting on 9 September, EPTL provisionally endorsed many aspects of the outcomes of the review that I have described. However, EPTL's views are subject to final confirmation on completion of all aspects of the review and on receipt of a satisfactory final Opinion from Leading Counsel.

I would re-emphasise, as reported in the Annual Report, that the review relates only to the internal organisation and operation of the ESPS, and does not impact on benefit structures which remain a matter for each Group. I would also reiterate that the objective is efficient and effective operation of the Scheme and its governance, with emphasis on appropriate devolution of functions to Group Trustees. A further report will be made to next year's Scheme AGM, and individual Groups will be asked to report back to their members once final decisions have been taken."

Market Value of Group Assets at 31 March 2010

	March 2010 £ million	March 2009 £ million
AREVA	14	12
British Energy Generation	2,931	2,269
Carillion (formerly Alfred McAlpine)	50	41
Drax Power	119	87
EA Technology	58	46
EDF Energy	2,410	1,896
Eggborough Power (formerly British Energy Combined)	73	52
Electricity North West	840	708
E.ON UK	5,091	4,580
First Hydro Company	57	42
International Power	111	77
Magnox Electric	2,010	1,637
Manweb	783	616
National Grid Electricity	1,530	1,160
Northern Electric	982	751
Powerhouse Retail	142	122
RWE npower	3,577	2,925
Southern Electric	1,178	914
United Utilities plc	279	219
Western Power Distribution	1,202	904
Market Value of Segregated and Unitised Funds	23,437	19,058

EDF Energy Group

Members will be aware that negotiations between the trustees of the EdF Energy Scheme have been going on for a period of 18 months in preparation for the sale of the Networks business to a new owner.

The process involved the creation of a binding agreement which EdF agreed to oblige the new owner to honour as part of the sale contract. During these negotiations the trustees were unaware of any new owner's identity. This has since emerged as the Cheung Kong company based in Hong Kong. The sale took place at the end of October.

The agreed procedure is that both the ESPS EdF Energy Scheme (which is closed to new members) and the EdF's new scheme for new employees have each, on 1 January 2011, been split into two parts. One part to be sold with the Networks businesses and a second for staff etc. who are being retained by EdF. This makes four schemes in all.

The existing EdF Energy schemes were renamed as the UK Power Networks Schemes and the majority of staff were transferred out into these two groups. Staff being retained by EdF were transferred into new ESPS Group Schemes called The EdF Energy Generation and Supply Group. During November, meetings were held in London and Crawley to explain these changes and their effect on members and approximately 1,000 members attended.

The principal provisions of the Binding Agreement, which has now been accepted without modification by CKI, are that the existing Scheme provisions and all existing and future benefits are protected and deficits will be met over a 15 year period, with guarantees and penalties for any financial failure to do so. Members have expressed satisfaction with this outcome.

Similar arrangements have been made for the retained staff and Scheme(s)

RPI vs CPI - The debate continues

Steve Webb the Minister for Pensions said in the Commons:

"I am pleased to announce to the House that - contrary to press speculation - we do not plan to grant schemes a modification power to make it easier to use CPI, where they do not already have the power to amend the scheme rules."

This should mean as reported earlier that the benefits payable through the ESPS will not only continue to be indexed to RPI but that the government does not intend to change the Pensions Act to force schemes with RPI in their rules to use an alternative index.

There are possibly a number of reasons for this change of attitude. Clearly there would be massive alienation of a significant part of electorate but it would appear that the reasons for a change were not so clear cut as appeared at first sight.

We have previously noted the reason for the Government's determination to use CPI – it will save over the long term because generally the CPI is lower than the RPI. Most public sector schemes are now seeing RPI replaced with CPI.

From a pensioner's standpoint such a change is regressive as CPI excludes several areas of essential expenditure. Unfortunately for government a number of key critics have looked at this decision and now argue that CPI is not an appropriate index for pension purposes.

A recent report from the Consumer Prices Advisory Committee suggested that the CPI should be revised to include the costs of actually owning a home. This amounts to roughly 10% of consumer spending. This conclusion is very much supported by the Royal Statistical Society which says that the CPI is a bad measure for uprating pensions and needs to be replaced with a measure to include housing costs, council tax and TV license fees. Unfortunately key expenditure items such as VAT, Car Tax and petrol duty, etc changes would still not be reflected in any revised CPI.

Pension providers initially welcomed the CPI decision as they saw it as reducing long term liabilities and go some way to offsetting the fact that people are living longer. It would reduce the amount of deficit payments too. Then many employers saw the potential legal minefield as many schemes had RPI embedded in their rules so they argued for an Act to allow them to overwrite scheme provisions. The Government clearly felt it inappropriate. There is a lot of 'grey' vote. Now it seems both Government and pension providers might have to live with a modified CPI.

Whilst modifying CPI must be welcomed it would still not close the gap entirely. Over the years the gap between CPI and RPI could be as much as 0.5% to 0.7% probably the higher end in the next five years. Interest rates would have an effect particularly if they continue to be as low as they are now. And of course pensioners on very low pensions are hardly affected by these changes anyway.

Want to Work

If you are still working you will no longer be forced to retire on age grounds.

Age discrimination as regards retirement will be eliminated by the abolition of the default retirement age (65) which will be phased in from April 2011. After October 1, employers will not be able to use the default retirement age to compulsorily retire employees. However, employees will retain the right to retire on or before age 65 if they wish to – and to start drawing a pension at any time from age 55.

If you are still working whilst drawing a pension you can still save for an additional pension. For a very limited number of pensioners the proposed relaxed rules on taking an annuity by age 75 may be of some comfort but for most the prospect of recovering annuity rates must be a pipe dream. Recent Department of Work and Pensions forecast of the number of pensioners reaching the age of 100 will only serve to place further pressure on annuity providers to cut rates still further.

Additional state pension follows CPI

State Second Pension (S2P) and pension accrued under the State Earnings Related Pension Scheme (SERPS) will also be increased in April, but in line with CPI rather than RPI. It is paid to those who earned above a certain level were not 'contracted out' during their working lives.

Pension credit

Pension credit, which tops up basic state pension for those with no other source of retirement income, is to rise in line with CPI as well. The standard minimum guaranteed weekly income for a single person will rise to £137.35, and to £209.70 for a couple.

Benefits also increased

The following benefits will also rise in line with CPI, from April 2011: Carer's Allowance, Council Tax Benefit, Disability Living Allowance, Housing Benefit, Incapacity Benefit, and Income Support.