

AESP NEWS

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www.aesp.org.uk

Changes to EPTL Constitution and AGM - This is the text of a letter from our Chairman to the ESPS Secretary regarding the decision by EPL to scrap proxy votes at the Scheme AGM.

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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.

Letter from the Chairman to the ESPS Secretary

“Changes to EPTL Constitution and AGM

I would like to put on record our view on the decision announced at last year’s ESPS AGM that proxy votes will no longer be considered when taking a vote on a member’s motion before the AGM. Put simply we consider this decision, in an organisation with a national and indeed international membership, to be profoundly anti democratic. Companies across the land could not continue to function if a new Companies Act were to remove the right to proxy votes – investors would be appalled.

I am aware that others, including some trustees and unions, have commented on this retrograde step.

After twenty years within the private sector the industry obviously needs to update the operation and approach to many activities including the management of the pensions obligation. However the Association is obviously concerned that changes in the Scheme should not adversely affect members’ rights and the security of benefits.

The changes being implemented are no doubt grounded on expensive legal advice. We must assume that the changes will not prejudice the Scheme’s legal status nor will they prejudice the interests of the members with regard to benefits.

I referred earlier to the fact that the Scheme’s membership is widely dispersed both nationally and within the groups. This makes effective communication essential. Taken globally communication is not good; some would say appalling. It is clear many administrators find communicating effectively with the membership an encumbrance not an essential duty.

The ESPS AGM is the only forum provided in the Scheme in which members can raise matters of concern affecting their pension or future benefits in company with other members. Although held centrally in London many pensioners do not have the disposable income to make the journey, even those who know of and study the issues will only make the journey when a matter of some significance to them appears on the agenda.

The proxy voting system makes it possible, as in any other national organisation, for such members to have their say without the problem of the journey. It is essential that this decision be reversed.”

A Personal View

AESP was conceived some 17 years ago as something of a spontaneous reaction to the post-privatisation fears of some of the Scheme members and as a more direct result of one company seeking to appropriate the Scheme's surplus for its own benefit by using the money to finance redundancies.

Coming so soon after Privatisation, these events clearly demonstrated that the days of our pre-privatisation protected retirement were going to be under threat and that the new private owners were set on financial gain rather than staff support in their new companies. As most of you will know, all this resulted in a very expensive Court case, which reached the House of Lords, where the two members who brought the case against the companies won only a partial victory – but an important one in that the companies then knew that any interference with our scheme would result in legal action.

Of course, since then, we have seen a number of changes in the ownership of our employing companies and their responsibilities for our pension scheme. Nearly all the larger undertakings are now owned by foreign companies whose interests lie not so much in the service that they provide and the support they give to their staff as to the profits that they can generate for their home businesses. There has never been a more urgent time for our Scheme trustees and for AESP to be keeping an eye on these activities in order to protect members' benefits.

One has only to look at what is currently going on in the public services to appreciate that. If it were possible our employers would amend our Scheme to provide pensions averaged over an employee's service in the industry rather than on the final year's salary. Such changes would save the employers a great deal of money and would substantially reduce the pensions for future retirees and perhaps for those already in retirement.

There is much propaganda in the media attempting to support this sort of action. Many of the public have not bothered to invest in a pension for their retirement and have instead relied on the national pension to provide for them. These people have nothing to lose by complaining that our schemes are too expensive to maintain and they are a soft touch for politicians who so often spout the companies' line. Yes, we are perhaps living longer, although the current obesity and other lifestyle problems rather dampen these theories. All this makes it imperative for our members and their trustees to be ever vigilant and prepared at any time to respond vigorously to any adverse changes to our Scheme.

Even though it is against our normal natures, we should perhaps be prepared to join those who publicly protest about these matters in our towns and cities. It is our future that is at stake here.

The rules of our Scheme are enshrined in statutory Regulations issued under the Electricity Act of 1989. They provide, amongst many other matters that an employer may change any of them except for clause 41, which sets out the Scheme benefits. Members will know that the Scheme is somewhat unique in that it has two tiers of management, the upper tier being the employer dominated Scheme Trustee and the second tier being the Group Schemes to which we all belong and to which we elect 50% of our trustees. In the last two years substantial changes have been made in which centralised activities such as Scheme accounting co-ordination and capital supervision and custody have been transferred from the Scheme Trustee to the Group Schemes. This has reduced the controls exercised by the Scheme Trustee (EPTL) almost to the single functions of Taxation and the holding of the ESPS AGM. At this meeting members have the right to raise any matter not wholly related to their Group Scheme. Group Scheme matters are supposed to be raised at Group AGMs which some Schemes do not hold! How long before the ESPS AGM disappears also?

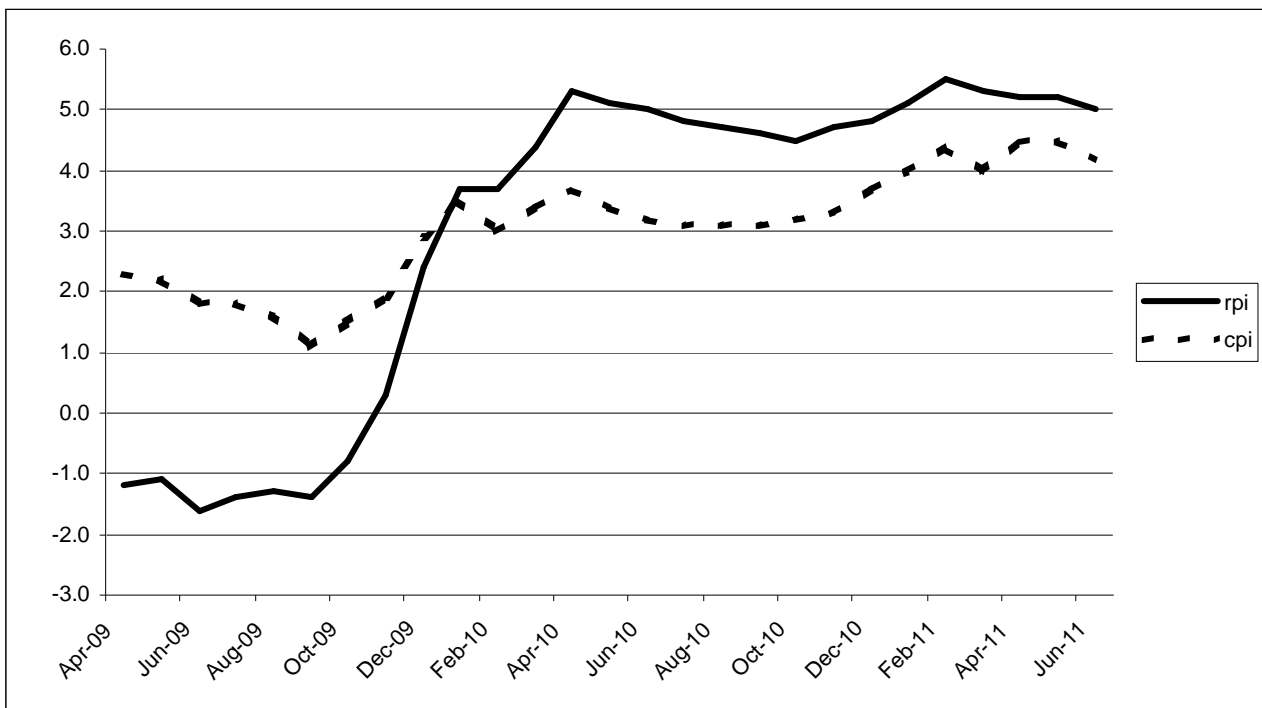
At the last ESPS AGM in October 2010, the EPTL Directors announced without prior consultation or warning that they were making a further rule change to outlaw proxy voting by members on members' resolutions submitted to the ESPS AGM. If any further illustration were needed that the employers are intent on handing over complete control of the Scheme to the Group Companies and Trustees, this must be significant. Our membership is widely distributed throughout the country and the proxy voting system is the only mechanism by which some of us can identify and have a say in the running of our scheme(s).

The Companies normally (in the absence of an independent trustee which some Group Schemes still have) maintain the casting vote in all Group Schemes and can therefore at present control our Schemes except for the benefit Clause. How long before one company, on behalf or the rest, tries to bring us into line with current political and allegedly public opinion by attempting to change our benefits?

If members need a reason for continuing your support for AESP please look no further than what is written here. However hard they may try, your elected trustees may not be able to successfully challenge any employer move to change our benefits but AESP is entirely independent, it now has sufficient muscle power and capital to bring a legal challenge if necessary and it seeks your continued membership. Your AESP Directors are all unpaid volunteers and are there for your benefit only. Please continue help us to maintain our supervision of your pension Scheme.

JCA

Do we need a pensioner index?



General inflation as measured by the RPI has risen steeply. The latest research from the Alliance Trust Research Centre published on 12 July shows that 65-74 year olds continue to face the highest rate of inflation.

Using CPI data Alliance calculated that for the 65-74 age group inflation was 5.1% which is over 20% more than the overall index. Actually my math suggests that 5.1 over 4.2 is a 26% difference but whatever the number the actualité is the damage to our pockets. Applying this inflation factor to RPI suggests that inflation for the 65-74 age group is running at something like 6.5%.

CPI food price inflation accelerated from 5.3% to 6.5% in June. Such increases have an immediate effect on all pensioners by limiting what we can put on the table. Research shows that the over 75s spend an even higher proportion of their income on food than the 65-74 group so their situation is even worse. According to a recent Daily Telegraph table carrots, bananas and Cathedral City Mature Cheddar all fell significantly in price over the last year but its not much of a diet.

The problem is of course pensioners don't actually buy goods in typical super market quantities. As any of us who do any food shopping will recognize how the prices of meat, dairy and bread and cereals have continued to rise. BOGOFs are fine for a family but for couples or singletons they are a nightmare.

A supermarket bargain discount on a family size pack of pork chops is not much use if you only want one small one. Some of us are fortunate. My butcher - yes my village actually has three - will cut one thin slice of ham or sell a single beef or lamb burger or a single chicken thigh but how many of us now have a friendly local shop; butcher, fishmonger, greengrocer or even baker. And when the lights go because of no investment in firm electricity generation we will need the candlestick maker too!

Over the last year petrol and diesel prices rose some 16% and insurance has also risen. Using a car is becoming a luxury. So make the most of your buses in England whilst the free pass continues to exist. For Scotland and Wales of course it is delegated function so you will be OK.

Household energy costs are set to rise too. Price hikes have already been announced by three major suppliers; for gas of 16%, and electricity of 11%. It doesn't take much imagination to expect the others will follow. Our £200 home heating allowance becomes ever more important.

These hikes will push pensioner inflation even further ahead of the general inflation rate. It is perhaps arguable that inflation for pensioners is out of control. Yes, the Country, not to say Europe and the USA, is in the economic mire. But we are spending a fortune baling out other counties when we have so many problems at home. It would be nice if we had the political courage to adopt Dilnot.

It is, therefore, no wonder the number of over 65s working has doubled in the last decade. Around 412,000 over 65s were in work in 2001. Now according to the Office for National Statistics, the number has risen to 870,000. And in addition thousands undertake voluntary work of all kinds. Some of course do both. They are undoubtedly helped by the fact that they all read and write. But education is another issue!

RPI vs CPI – the debate continues

The Government needs to be seen to be saving taxpayers money. Consequently it has produced a variety of proposals for the ways in which benefits in public sector pension schemes will be funded and calculated in the future. It has now reluctantly agreed that funded schemes like the local government pension scheme will fall outside this debate so its target for the present is the unfunded schemes – civil service, teachers etc.

The Occupational Pensioners' Alliance (OPA) - which represents some two million occupational scheme members - accused the Government of rushing through the changes, saying it was failing to consult properly on the switch from the RPI.

OPA executive officer Roger Turner said: "People believe they have a right to the RPI. Morally, they are probably right. The Government accepted that the RPI didn't work for the state pension and devalued it, introduced the triple lock and therefore the earnings link to keep its value but they're prepared to devalue everything else by switching to a lower indexation. That appears perverse, and it is purely and simply Treasury driven to save money."

OPA, of which AESP is a member, has now taken legal opinion on the matter. Getting an opinion on a collective basis is a very cost effective way of proceeding. Your Board has agreed to make an additional contribution to the costs of this exercise.

It is clear that as the law currently stands your pension or past service pension rights are a property right protected under the Human Rights Act. Therefore any changes which had a backdated effect would need to be justified by the Government if it sought to change the existing law. In private sector schemes trustees would also have to justify their actions. As we reported in the last Newsletter the Government in the form of Steve Webb backed off from private schemes where the trust deed enshrines RPI.

However with all the Government U-turns so far anything may yet be possible so Counsel's opinion is well worth having.

Tax Simplification for Pensioners

The Office for Tax Simplification (OTS) is consulting on how taxing pension income might be simplified.

You go through your working life paying PAYE and never see a tax return. You then retire and immediately your tax office sends you a form to complete. For many of us with only two sources of pension income, our ESPS pension and the state retirement pensions this is relatively simple. Your ESPS pension provider operates a tax code that takes into account the untaxed, at source, state retirement pension and that is that. If however you have other pensions from say a previous employer or because you accumulated further pension after you retired from the ESI then this can make completing your tax return tedious. For a bereaved widow (or widower) who comes across the problem for the first time having inherited pensions from their partner in addition to their own it can be too complex.

Exchequer Secretary to the Treasury David Gauke MP said:

“The tax system we inherited was a spaghetti bowl of reliefs and exemptions that pensioners and small businesses find particularly hard to navigate. We want the Office of Tax Simplification to look at how we can make life simpler for taxpayers who just want to comply with the rules and pay their taxes.”

The review will look into areas of the tax system which cause the most complexity and uncertainty for pensioners, identify how these issues vary within the pensioner population and explore what changes could achieve simplification and what the wider implications of these might be.

If you have a detailed knowledge of, or interest in tax issues, then the Office of Tax Simplification welcomes your views. It can be contacted at ots@ots.gsi.gov.uk. Whilst all views and ideas will be very gratefully received, the OTS does not commit to responding to every suggestion.

Electricity Association Services

Following a complaint to the Pensions Ombudsman about the annuities purchased last year 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.”

Investment Returns 2009/10

| | Maturity % | Annual Return % | Three Year return % | Fund Value £M | Equities % | Gilts % | Other % |
|---|---------------|-----------------------|------------------------------|---------------------|---------------|------------|------------|
| Areva | 76 | | | 14 | | | |
| British Energy Generation | 64 | 1.50 | | 2,931 | 40 | 44 | 16 |
| Carillion (ex Alfred McAlpine) | 88 | 25.8 | 2.9 | 50 | 33 | 64 | 3 |
| Draxpower | 34 | | | 119 | | | |
| EA Technology | 85 | 33.2 | 3.3 | 58 | 63 | 35 | 2 |
| EdF Energy | 79 | 30.9 | 4.6 | 2,410 | 48 | 50 | 2 |
| Eggborough Power (ex British Energy Combined) | 23 | | | 73 | | | |
| <i>Electricity Association Services (wound up 9 March 2010)</i> | <i>100</i> | | <i>bulk</i> | <i>annuity</i> | | <i>100</i> | |
| Electricity North West ENW | 99 | 21.0 | | 628 | 29 | 68 | 3 |
| Electricity North West UUES | 17 | 31.7 | | 215 | 65 | 33 | 2 |
| E.On UK | 80 | 14 | 4 | 5,091 | 22 | 70 | 8 |
| First Hydro | 46 | | | 57 | | | |
| International Power | 24 | | | 111 | | | |
| Magnox SLC Section | 72 | 22.2 | 8.5 | 2,010 | 9 | 74 | 16 |
| Manweb | 80 | 29.1 | 2.6 | 783 | 44 | 52 | 4 |
| National Grid | 81 | 27.9 | 7.9 | 1,530 | 55 | 40 | 5 |
| Northern Electric | 75 | 30.8 | 6.4 | 982 | 37 | 54 | 9 |
| Powerhouse Retail | 100 | 18.7 | 5.0 | 142 | 29 | 71 | |
| RWE Npower | 83 | 27.3 | 3.2 | 3,577 | 19 | 67 | 14 |
| Southern Electric | 79 | 27.4 | 2.1 | 1,178 | 51 | 41 | 8 |
| <i>United Utilities (wound up 18 November 2009)</i> | <i>91</i> | | | <i>279</i> | | | |
| Western Power | 81 | 37.0 | 1.5 | 1,202 | 61 | 29 | 10 |
| ESPS Total | 79 | | | 23,437 | | | |
| Scottish Hydro-Electric | 76 | 30.8 | 6.9 | 1,109 | 42 | 51 | 7 |
| Scottish Power | 73 | 22.8 | 5.9 | 2,287 | 38 | 50 | 12 |