report

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REPORT OF THE VICE CHAIRMAN OF THE PENSIONS COMMITTEE

NATIONAL ASSOCIATION OF PENSION FUNDS ANNUAL CONFERENCE MAY 2004

1. Purpose

1.1 To provide other Members of the Pensions Committee with feedback from the main presentations made at the National Association of Pension Funds Annual Conference which was attended by myself, Councillor Tom Pettengell and two officers.

2. Background Information

2.1 The major theme behind most of the discussion and activity at the Conference was one of concern that not enough people are saving enough to support themselves comfortably in retirement.

2.2 Many of the presentations dealt in one way or another with the continuing disappearance of final salary pension schemes and the question of whether making it compulsory for employees to join and contribute to a pension scheme was a viable solution.

2.3 There was general agreement that the workplace is the optimum place for pensions to be promoted and that, with people living longer, it is more important than ever that people do make appropriate savings.

3. Opening Address

3.1 NAPF Chairman, Terry Faulkner, opened the Conference when he was interviewed by Paul Lewis, journalist and presenter of ‘Moneybox’. Mr Faulkner took the opportunity to announce several initiatives coming out of the NAPF:

- Research on how effective trustee decision-making is;
- An awards ceremony next year for pension scheme communication;
- Research on the transition to a single citizen’s pension from the current jumble of State arrangements.

3.2 Mr Faulkner rejected arguments that trustees should be paid saying that “you would not necessarily get a better trustee by paying them” and that in the main “trustees collectively possess the relevant skills, knowledge and familiarity”.

3.3 The awards ceremony is intended to showcase the high quality of communication work undertaken by UK pension funds. A ceremony attached to the 2005 annual conference in Manchester will highlight the work of the best communicators.

3.4 The research on how a Government might transition the move to a Citizen’s Pension is based on the assumption that Adair Turner’s independent commission will suggest a simpler framework of State provision. The NAPF view is that there are drawbacks with compulsion and that the Government will be better off focusing on ways to incentivise employees to contribute.

4. Donald Duval, Head of Professional Practice at Aon Consulting and President of the Society of Pension Consultants

4.1 Losing belief in something even when there is nothing to replace it with has happened before in the United Kingdom according to Donald Duval. In his address to the Conference, Mr Duval compared the current loss of faith in defined benefit pension provision to the sudden decline in belief in witchcraft and the occult in the early modern period. Just as witchcraft declined as a result of a growing faith in science, even if the precise alternatives were not yet known and signified the loss of a cohesive social unit, so defined benefit schemes will fall away because the premise that a company is a cohesive social unit over time no longer exists.

4.2 This illustrates how societies have to discard things if they are no longer working. According to Donald Duval, in the case of defined benefit provision, failures of governance have exposed scheme members, companies and their shareholders to risks that serve nobody well.

4.3 We should, therefore, discard the raft of ineffective pensions legislation that is intended to protect scheme members – but which is actually counter-productive – and that would be a step in the right direction. His argument was that if something is not working, it should be discarded even if there is nothing to instantly take its place because the gap created will encourage the necessary incentive to create something new.

5. The compulsion debate

5.1 The Confederation of British Industry and the Trades Union Congress were unable to come to agreement on whether employers should be compelled to make pension contributions on their employees' behalf.

5.2 Brendan Barber, TUC General Secretary, said that employees had been let down badly by too many employers retreating from the levels of pension provision originally promised. One in four final salary schemes closed in 2003 and about half of the largest employers have closed their schemes to new employees.

5.3 Nor is the government helping much. People are not claiming the Pension Credits because they don't understand them and the annual rise in pension allowances is still not linked to earnings.

5.4 He acceded that employers looking to acquire a competitive edge would always provide pensions but without a compulsory framework, he asserted,others will simply provide nothing. The most conspicuous victims are those like the ASW employees whose company's pension fund has failed leaving them with nothing.

5.5 Digby Jones, CBI Director General, argued that he did not believe that compulsion was workable because if employers failed to make contributions for whatever reason, the Government would have to act as guarantor where the contributions were not passed on. And never mind if investment performance disappoints.

5.6 Whilst acknowledging that there is indeed a 'pensions crisis', Digby Jones believes that not one part of society is entirely to blame and not one part of society on its own can fix it. He reminded Mr Barber that Trade Unions only represent 19% of private sector employees.

5.7 He insisted that any suggestion of industrial action in response to disappearing pension benefits would only make matters worse and, while employers don't have any power to compel, he will ensure that the CBI issues guidelines to encourage young people into the world of saving. He understands the need for business to be proactive in this matter.

5.8 The two men agreed that it was wrong for employers to close final salary schemes for all staff except directors. Mr Barber criticised these "boardroom double standards" describing them as "frankly despicable". Digby Jones chose more modest language but still described it as "wrong" and said it undermined his attempts at lobbying.

5.9 There was also agreement on the need for employers to take a lead on education and information about pensions. Both parties agreed that there was a need for employers to help employees understand the terms of their benefits and a real responsibility to make sure people know what's at stake. Digby Jones also spoke of the need for greater education about pensions at school.

6. The Rt. Hon. Andrew Smith MP

6.1 Secretary of State for Work and Pensions, Andrew Smith, had to hold back when delivering his speech because the news that he was providing assistance to pension scheme members who had lost benefits, such as the ASW scheme members, had to be presented to Parliament first. An air of expectation hung over the Conference but the protocol-bound Cabinet Minister was forced to repeat that he was looking into compensation claims. A day later he announced the assistance.

6.2 Mr Smith used the occasion to outline the achievements of this Government citing how its first responsibility is to tackle pensioner poverty and how it intends to improve confidence in pensions and the ease with which people can save. He said "the moral case for the Pension Protection Fund [being introduced by the Pensions Bill] is overwhelming". While this might have appeared the right time to explain the assistance that he was providing, Mr Smith said simply that they were examining the options and provided they could avoid setting a precedent and bearing in mind affordability, "it would be the right thing to do".

6.3 He said the Government was also committed to:

- Developing informed choice – by providing individually tailored information
- giving people options to work for longer; and
- making it easier for companies to run schemes.

7. Moving regulation forward Tony Hobman OPRA

7.1 Tony Hobman of the Occupational Pensions Regulatory Authority explained why their approach to regulation was changing and what form the new approach would take.

7.2 OPRA's approach had been criticised by many including Alan Pickering in his review for being to focussed on prescriptive detail and not being in tune with changes in pensions rules since 1993.

7.3 The new manifestation will have a new name, 'The Pensions Regulator', new powers and a new approach. It will focus on outcomes rather than individual processes which should help it to take more effective action in fewer but more serious cases.

7.4 The TPR's new powers include

- freezing a scheme (max 6 months)
- improvement notices with threat of sanction
- ability to have things put right (eg seek to have assets restored)
- disqualify unfit and improper trustees
- powers relating to the use of the Pension Protection Fund

7.5 The general thrust of the TPR's work will be to put things right rather than punish through ensuring trustees etc have the right skills and being proactive with improvement ideas. It is anticipated that the new regulator will;

- help to protect employees' benefits
- reduce calls on the Pension Protection Fund
- promote good scheme administration

8. The insurer's view of workplace pensions

8.1 Richard Harvey, Chairman of the Association of British Insurers, identified national under provision on the following scale;

- £27billion savings gap between what is being saved and what is actually required

- 8 million people in the UK in employment are saving nothing

- There is a general lack of confidence in pensions - a recent survey showed only 38% of savers were happy with their provider

- Stakeholder pensions have simply failed to attract any business

8.2 He called for a number of measures to be implemented that would lead to a resurgence in workplace pensions:

- by removing the financial promotion order which currently inhibits what employers can say;
- By reforming the State provision so that it is clear that any personal provision will mean an addition to benefits rather than cause a reduction to them
- by rewarding employers through the tax system for providing workplace advice;
- by introducing a Pension contribution tax credit allowing employers contributing at least 5% to a scheme for two-thirds of their workforce to pay lower national insurance contributions; and
- A removal of the price-cap on stakeholder pensions.

8.3 Questions from the audience suggested that the insurance industry could help boost the public's perception of the pensions industry by improving the speed and accuracy of scheme wind-ups, by capping commissions on sales and by making sure that all schemes, not just those providing money purchase benefits, have to provide the same level of post-retirement increase.

9. Age discrimination legislation

9.1 With age discrimination legislation coming into effect from 1 October 2006, Robin Ellison (Pinsents) introduced David Pollard (Freshfields Bruckhaus Deringer) who looked at the definitions of discrimination and the rationale for legislation. He drew attention to the fact that the Directive would apply to everyone, and not just specific groups, so that it would be more all-embracing than the US position which was anti-old age (and not youth).

9.2 The Directive would cover "employment and occupation", but not services, would not apply to state pensions, stating that it was "without prejudice to national provisions laying down retirement ages" and, it was assumed, would not be retrospective. The Government was currently considering whether to allow forced retirement (such as, for example, in the armed forces).

9.3 It is likely that the Government will enact a limited list of specific provisions to permit direct discrimination, for example, with regard to retirement ages and actuarial calculations based on age rather than sex. It is expected, therefore, that common sense will triumph and that, despite the need for anti-age discrimination in some areas, the pensions world will not be unduly affected.

10. Local Government in a Parallel Universe

10.1 In a session timed to coincide with this year's triennial valuation of Local Government Pension Schemes in England, Mike Taylor, Chief Finance Officer of Surrey County Council, and Chris Hull from the actuaries, Mercer identified ways of managing a pensions deficit as it might apply to a local government pension scheme. Mr Taylor explained the numerous difficulties facing County Treasurers when trying to balance scheme funding levels and council tax rises.

10.2 Surrey Pension Fund has assets of about £1.1billion, is about 75% funded at the moment and its common employer contribution rate is approaching 20%.

10.3 The problems are the same as for the rest of Local Government with having to fund Pensions Increase since 1993, the abolition of Advance Corporation Tax, the trend in early retirements through the 1990s, the reducing mortality rates and investment returns beneath the actuary's assumptions.

10.4 One problem that Surrey have that is not reflected in Nottinghamshire is disinterest from their politicians. It is apparently difficult to encourage Members to sit on the Pensions Committee; when they do the trustee training takes 18 months of their 4 year term and at the last election 75% of them were replaced.

10.5 The other problems however, are much the same;

- Employers and Fund members are much more interested in pensions nowadays and require more and more information
- Further to the Stocktake, regulations keep changing and, despite all the fine words, nothing ever gets simpler
- Investment performance continues to be complex, risky and disappointing
- The Funding Strategy Statement calls for as constant an employers contribution rate as possible but this is beyond our control

10.6 Using an imaginary valuation they showed that while funding levels would have to go up, they could be managed using a deficit recovery and funding strategy. While recognizing that contributions would need to increase, they identified how revising the asset allocation strategy in the light of an asset liability modelling exercise would then influence their selection of managers and the subsequent monitoring of performance and risks.

10.7 This exercise is currently taking place for real at Nottinghamshire Pension Fund where our actuary, Mercer Consulting Ltd, is currently looking at the assets and liabilities of our funds with a view to our setting of employer contribution rates for the next three years. The results of their calculations are expected in October / November which will be in time for employers to feed them into their budget processes for 2005/06. The outcomes will be reported back to Pensions Committee in full in due course.

11. Statutory and Policy Implications

This report has been compiled after consideration of implications in respect of finance, equal opportunities, personnel and crime and disorder. Where such implications are material they have been described in the text of the report.

12. Conclusion

The NAPF Conference is a useful opportunity for Members and officers to keep abreast of key issues in the field of pensions. In addition to the informative and professional speakers, a further benefit is derived from the opportunities for networking with some of the leading players from both the public and private sector. The Nottinghamshire Pension Fund does not operate in isolation and the Members of the Pensions Committee maintain an informed and professional approach to its business partly as a result of attendance at events like this.

13. Recommendation

That the report be noted.

COUNCILLOR DARRELL PULK
VICE CHAIRMAN OF THE PENSIONS COMMITTEE

Background papers available for inspection

Conference Agenda

Equal Opportunity Implications

Nil

Personnel Implications

Nil

Crime and Disorder Implications

Nil