



AUTUMN 2010 NEWS BRIEFING

This GMB News Briefing aims to give an overview of recent developments in the Pensions World for Trustees, Activists, Officers and anyone with an interest in pensions news. It incorporates the Member Nominated Trustee News.

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COALITION WATCH:

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- **State Pension Reforms**
- **Hutton's Interim Report on Public Sector Pensions**
- **Review of Automatic Enrolment**
- **More on Pension Increases and CPI**
- **Reforms to the System of Tax Relief for Pension Savings**

OCCUPATIONAL PENSION PROPOSALS – More employers are changing their pensions

THE PENSIONS OMBUDSMAN – has published his Annual Report

PENSION PROTECTION FUND – has announced a reduction to their levy and published updated figures on the funding of defined benefit schemes

STATISTICS – covering employer pension provision, pensioner incomes, a comparison of reward between private and public sectors and some useful LGPS stats for the last year.

TUC – GMB Pensions Motion to TUC Conference, and TUC's Member Nominated Trustee Conference.

GMB PENSION BRIEFINGS

PAST ISSUES OF PENSIONS NEWS CAN BE SEEN AT

http://www.gmb.org.uk/work_issues/pensions_retirement/gmb_pensions_bulletins/gmb_pensions_news.aspx

COALITION WATCH

In this section, we'll keep you abreast of all of the Government's moves that will affect your pensions. In recent months we've been presented with the Comprehensive Spending Review, Hutton's Interim Report on Public Sector Pensions, a rumoured Green Paper on Reform of the State Pension and specific consultations on taxation and retirement:

State Pensions

Inflation figures for September 2010 showed that the value of the Retail Prices Index (RPI) increase was 4.6%. This compared with the Consumer Prices Index (CPI) increase of 3.1%. As outlined in the last Pensions News (Summer 2010) the Government is moving to base the indexation of many benefits on CPI, which means that these will receive a much lower increase. The Basic State Pension will remain linked to RPI for 2011, meaning that is likely to rise to £102.14pw; but will be linked to the best of CPI increases, Average Weekly Earnings increases or 2.5% thereafter.

The Comprehensive Spending Review set out the Government's Plans to bring forward the planned increases to State Pension Ages (SPA) for both men and women. Under these proposals, the current increase of SPA for women from 60 to 65 between 2010 and 2020 would be accelerated from 2016 so that it reaches 65 by 2018. The increase from 65 to 66 for both men and women would then be phased in between 2018 and 2020 (six years ahead of the current plans). Further reviews of the increases to 67 and 68 would also be conducted.

Finally a proposal to implement a universal level of State Pension thereby superseding the Additional Pensions elements (i.e. SERPS and S2P) and means tested benefits (i.e. Pension Credit and Savings Credit) has been leaked to the press in recent days. Whilst on the face of it a more simplified system would be welcome, it is worth noting that the level of pension being discussed (£140pw) is lower than many pensioners with SERPS and S2P would get and is likely to be lower than the Government's projected value of means tested pensioner benefits by 2015. A Green Paper from the Government on this matter is promised before the end of the year.

Hutton Review of Public Sector Pensions

On 7 October, John Hutton published his interim report on public sector pensions. The report sets out his principles that that the objectives for reform should be that public sector pensions are affordable, sustainable, adequate, fair, supportive of productivity, transparent and simple. GMB would support most of these.

He has also indicated that employee contributions should be increased (more of which below). He has asked Government to take a view on what level of

pension is adequate for the public sector workforce, as well as what level of pension provision would be viewed as affordable to Government. Finally he has suggested reviews of both the Fair Deal mechanism by which pensions are protected for outsourced public servants and the discount rate, a key assumption used by actuaries in valuing the cost of pension benefits. We understand that public consultations on both of these matters will be launched shortly.

GMB's full briefing can be seen at http://www.gmb.org.uk/docs/10179b_Hutton%20bulletin.doc

Following the Hutton report, the Comprehensive Spending Review announced the Government's plans to increase employee contributions for public sector pension schemes requiring an additional 3% of salary with this increasing being phased in from 2012. The exact form of this increase is to be finalised, but Hutton's report went to great lengths to suggest that increases should be structured so as to minimise the number of members choosing to opt out of the scheme.

Review of Automatic Enrolment to Work Based Pension Schemes

The Department for Work and Pensions has just published a report of a commissioned review of the Automatic Enrolment provisions, which originated from the Turner Commission on pension saving and was developed under legislation from the Labour Government. It is worth noting the following recommendations from the review:

- Individuals need not be automatically enrolled unless they earn above the income tax threshold (currently £6,475 and due to rise to £7,475 in 2011)
- Individual's who earn above the National Insurance earnings threshold (currently £5,720) can opt in to a pension scheme and receive an employer contribution
- All employers will have to participate in Automatic Enrolment
- Automatic enrolment can be deferred for three months from starting employment, although employees can actively opt in to their pension scheme during this period
- The requirements by which an employer can certify that contributions to their scheme comply with the minimum requirement is to be simplified
- The National Employment Savings Trust (NEST) will remain as a low cost pensions savings vehicle.

Move to CPI for Pension Increases

We have previously published details of the government's proposal to base state pension and public sector occupational pension increases on the Consumer Prices Index rather than the Retail Prices Index, and the impact

this could have on savings. One outstanding issue was how the government expected such a move to translate over to private sector pension schemes.

The Pensions Minister has indicated that there is no intention to introduce a statutory override, requiring private sector schemes to use CPI, however there is still some feeling that the Government is exploring this option. What this means is that some trust based pension schemes will automatically through their link to statutory increases and some schemes will automatically retain RPI based increases where their wording refers to that index. Members and trustees are advised to check scheme rules and seek advice where there is any doubt on pension increases.

Review of the Restriction of Pensions Tax Relief

As noted in the last Pensions News, the Tory-Liberal Government has announced that they intend to abandon the principle that higher earners should lose the right to tax relief on pension contributions and introduce a new arrangement based on the current pensions tax regime, but with much lower scope for tax free saving in any one year.

The initial proposal has the potential to reduce pensions tax relief for many medium earners, who may not come close to the 40% income tax band, but rather who may be in a defined benefit scheme and receive a significant promotion. The final proposal included one key provision demanded by GMB in our response, meaning that anyone caught in such a way could smooth their pension savings over a number of years and so use up any unused tax allowances from previous years.

More on this can be read in our bulletin at http://www.gmb.org.uk/docs/10187_Tax%20Relief.doc

OCCUPATIONAL PENSION PROPOSALS

In recent months we have heard of proposed changes at:

- North British Distillery
- Britvic
- Bombardier
- CITB
- National Express
- Enterprise
- Veolia
- Aviva
- Asda
- Bridon International
- Universities Superannuation Scheme

Please keep the Pensions Department advised of any proposed pension changes you are notified of.

Ofgem has also reared up again on pensions in the Energy sector. Following last years attempted decimation of the gas supply sector's pension provision, they have now decided to turn their attention to the electricity sector.

In addition, we send support to colleagues at Astra Zeneca who have taken a number of days of well publicised and well supported industrial action in order to protect their pensions from an unwarranted attack.

THE PENSIONS OMBUDSMAN

The Ombudsman has published his annual report for 2009/10. It provides a useful summary of some cases he made determinations on as well as outlining the number of cases dealt with in the year. More than 3,600 new enquiries were registered with the ombudsman's office in 2009/10. 950 cases were accepted for investigation, and 889 cases were closed during the year. The average time taken to complete an investigation from the date a case is referred to the Ombudsman is under 11 months; although one-quarter of cases take longer than a year to conclude. The report can be seen at <http://www.pensions-ombudsman.org.uk/Publications/docs/AnnualReport2009-10.pdf>

PENSION PROTECTION FUND (PPF)

The PPF has announced that it intends to reduce the levy it collects from pension schemes from £720m to £600m in the next tax year. This move is driven by the reduction in indexation of PPF benefits to a CPI level thereby reducing the value of those benefits to members.

Regular readers will now that the PPF publishes a monthly update on the aggregate funding position of the 7800 (or so) defined benefit schemes that can be covered by the fund – called the PPF 7800 index.

We last reported the end-July 2010 update, which showed a combined surplus of £6.6bn. More recent figures show that the combined position revealed:

- A deficit of £53.5bn at the end of August 2010, and
- A deficit of £20.4bn at the end of September 2010 (an improvement from the deficit of £98.8bn that was reported in September 2009)

USEFUL STATISTICS

1. **DWP's Employer Pension Provision Survey** – gives a useful feel for the extent to which work based pension arrangements are offered in the private sector. Key findings are that only 28% of private sector employers provide a pension, although these cover 82% of private sector employees. 27% of private sector

employees were in a work based pension scheme. 10% of private sector employers contribute towards employee pension savings. Where contributions were made the average amount of contribution from an employer was 9% of pay.

2. **Office for National Statistics' Pensions Trends Series** – has published some updated Chapters in recent months. Amongst other things these find that in 2008/09 pensioner couples lived on £564pw on average. A single man received £304pw, and a woman received £264pw on average. Average pensioner incomes between 1994 and 2009 increased by 44%, some 20% more than average earnings. However the statistics also show that the divide between incomes of the most well off and least well off pensioners is continuing to grow.
3. **Office for National Statistics Comparison of Earnings** - the ONS released a report on pay and pension contributions in the private and public sectors. This report shows that median gross pay in the private sector for full-time employees in the private sector is £604 per week. The equivalent figure in the public sector is £555 per week. The 'total reward figure', which is the gross pay and employers' pension contributions, in the private sector is £666 and in the public sector is £644. These figures are for those working in both sectors with pensions. The figures are distorted when employees without pensions are considered, the median 'total reward figures' then become £479 per week in the private sector and £615 per week in the public sector.
4. **Local Government Pension Scheme Statistics** – Figures for the LGPS Scheme year 2009/10 are now available. The figures for English funds show that benefit expenditure has increased by 13% in the year, but is still exceeded by income from members, employers and investments by £4.9bn. The market value of the combined funds is £132bn (an increase of 36% from last year). The number of ill health retirements has decreased by 25% on last year, whereas the number of redundancy retirements is up by 35% on last year.

TUC CONGRESS 2010

Again, GMB led from the front in moving the pensions motion at this year's TUC Conference. GMB's motion was endorsed unanimously thereby putting our pensions agenda at the forefront of the Union movement's agenda. The agreed motion can be seen at <http://www.gmb.org.uk/PDF/TUC%202010%20Pensions%20Composite%20Agreed.pdf>

TUC MEMBER TRUSTEE NETWORK

The TUC will be having a conference for anyone in its Member Nominated Trustee Network on Tuesday 16th November, in London. More information can be seen at <http://www.tuc.org.uk/events/detail.cfm?event=3202>

GMB'S PENSION BRIEFINGS

Finally, a reminder that GMB Pensions Department continues to publish briefing materials on all aspects of pensions. If anyone has any suggestions for future briefings, we would be grateful to hear of these. We have recently published briefings on:

- Actuarial Valuations
- Age Discrimination and Pensions
- Buyouts of Pensions Schemes
- Career Average (CARE) Pensions
- Consultation on Changes to Pension Schemes
- Default Retirement Age
- Defined Contribution - Group Personal Pensions versus Trust Based
- Hybrid Pension Schemes
- Indexation of Pensions (CPI and RPI)
- Inducements to Give Up Pension Rights
- International Pension Portability
- Mistakes & Overpayments
- Part Time Working and Pensions
- Redundancy and Pensions
- Salary Sacrifice and Pension Contributions
- State Pension Age Information
- Tax Relief for Pension Savings
- TUPE Transfers and Pensions

Our full briefings can be seen at http://www.gmb.org.uk/work_issues/pensions_retirement/gmb_pensions_bulletins.aspx

Also, GMB's full pensions guide can be seen at www.gmb.org.uk/pensionsguide

That's all for this edition. More information on our sections of the GMB website at

www.gmb.org.uk/pensions

and

www.gmb.org.uk/pspc