



## **SUMMER 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.

Following our survey on the State Pension we have a host of members receiving this for the first time, so a very warm welcome to you.

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## **COALITION WATCH**

In this section, we'll keep you abreast of all of the Tory-Liberal moves that will affect your pensions. The Government has announced a series of reviews and consultations in their first months:

### **Hutton Review of Public Sector Pensions**

In keeping with both Lib Dem and Tory manifestos, a review of public sector pensions has been established. Lord John Hutton, ex-Labour minister has been assigned to act as Commissioner and to review the schemes and produce two reports making recommendations for the future sustainability and affordability of public sector pensions.

The Commission's website is at

[http://www.hm-treasury.gov.uk/indreview\\_johnhutton\\_pensions.htm](http://www.hm-treasury.gov.uk/indreview_johnhutton_pensions.htm)

GMB has responded to the initial consultation. Our submission can be viewed at:

<http://www.gmb.org.uk/docs/10134e%20GMB%20SUBMISSION%20TO%20THE%20HUTTON%20COMMISSION%20ON%20PUBLIC%20SECTOR%20PENSIONS.doc>

A copy of our short bulletin highlighting the key points of our submission can be seen at

<http://www.gmb.org.uk/docs/10137%20Hutton%20Response%20Bulletin.doc>

### **State Pension Age Consultation**

In keeping with the Tory manifesto, the coalition has announced a review of the planned increase to the State Pension Age. They initiated a call for evidence on increasing the State Pension Age for men from 2016 (rather than from 2024 for all as has already been legislated for).

GMB's response to this call can be seen at

<http://www.gmb.org.uk/docs/10116b%20SPA%20Call%20for%20Evidence%20Response.doc>

### **Move to CPI for pension increases**

As previously noted, the Chancellor announced the coalition's intention to base statutory pension increases on the Consumers Prices Index (CPI) rather than the Retail Prices Index (RPI) in future. This has many far reaching consequences. These are outlined in our briefing, which can be seen at:

[http://www.gmb.org.uk/work\\_issues/pensions\\_retirement/gmb\\_pensions\\_bulletins.aspx](http://www.gmb.org.uk/work_issues/pensions_retirement/gmb_pensions_bulletins.aspx)

The move is also discussed in our submission to the Hutton Review (see above).

## **Review of the requirement to annuitise by 75**

The Tory-Liberal Government has announced its intention to remove the requirement for individuals to either draw on their pension or convert savings into an annuity by the age of 75.

GMB believes such a move only provides a benefit to those who can afford not to draw on their pensions until after the age of 75. Furthermore we believe that the tax favourable regime given to pensions savings will be exploited by those who can afford to leave their pension funds untouched in retirement. Under the proposals these funds can be passed on to their estate with a lower rate of tax being due on the savings than at present.

More at [http://www.hm-treasury.gov.uk/consult\\_age\\_75\\_annuity.htm](http://www.hm-treasury.gov.uk/consult_age_75_annuity.htm)

## **Review of the restriction of pensions tax relief**

A long standing GMB campaign has been to reverse the beneficial impact of tax relief in pensions saving towards high earners. Anyone paying 40% tax on income receives full tax relief on their pension contributions. This resulted in the vast majority of pensions tax relief being given to higher earners.

The Labour Government legislated for provisions to take effect that would reduce pensions tax relief for anyone earning over £130,000pa.

The Tory-Liberal Government has announced that they intend to abandon this principle 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.

This 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.

More at: [http://www.hm-treasury.gov.uk/consult\\_pensionsrelief.htm](http://www.hm-treasury.gov.uk/consult_pensionsrelief.htm)

## **Review of automatic enrolment**

The Tory-Liberal Government announced a review of how best to support the implementation of automatic enrolment into workplace pensions.

Whilst we did not agree that the reforms brought in by the Labour Government were as progressive as we would have liked, we will oppose any moves to weaken these reforms. We fully support automatic enrolment into work based pension schemes.

More at <http://www.dwp.gov.uk/policy/pensions-reform/workplace-pension-reforms/>

## **Phasing Out the Default Retirement Age**

In keeping with the policies of the three main parties prior to the election, the coalition has announced its intention to phase out the Default Retirement Age of 65. This will mean that employees cannot be forced out of work solely because of their age (although the opportunity to justify age based retirement may still be retained).

More at <http://www.bis.gov.uk/Consultations/retirement-age?cat=open>  
And in our briefing at [http://www.gmb.org.uk/docs/10141\\_DRA.doc](http://www.gmb.org.uk/docs/10141_DRA.doc)

## **REVIEW OF THE PARLIAMENTARY CONTRIBUTORY PENSION FUND**

This review was instigated by the old Government, rather than the coalition, but it does fall into the views expressed by David Cameron in the run up to the election that MPs pensions needed to be reformed. The report from the Review Body on Senior Salaries was published in July and can be seen at [http://www.ome.uk.com/Parliamentary\\_Pay\\_Allowances.aspx](http://www.ome.uk.com/Parliamentary_Pay_Allowances.aspx)

The review recommends that MPs build up a pension in the future on a career average basis, with an accrual rate of 1/60 and a pension age of 68. The proposed cost to MPs would be 5.5% of pay, with the taxpayer paying 10.5% of pay (capped at 15.5% of pay).

This represents a significant cut to parliamentarians' pensions. However with a salary of £65,738pa; this cut is unlikely to fuel an increased reliance on means tested state benefits, or result in the same degree of pensioner poverty, than a similar cut would cause to lower earning workers.

## **OCCUPATIONAL PENSION PROPOSALS**

Although there has been a surge in proposals to change pension plans this year, with many consultations still ongoing, recent months have seen a slowdown in activity from employers. However a press release from Pricewaterhouse Coopers suggests that many employers are set to wield the axe on the remaining defined benefit schemes (see <http://www.ukmediacentre.pwc.com/News-Releases/Fresh-wave-of-pension-scheme-closures-expected-as-94-of-employers-intend-to-reduce-or-axe-current-defined-benefit-provision-eac.aspx> )

In recent months we have heard of proposed changes at:

- Northern Ireland Water
- Hanson
- BBC
- Radius Systems

- Universities Superannuation Scheme
- Premier Foods
- Astra Zeneca

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

## **THE PENSIONS REGULATOR**

### **Strengthened Guidance On Transfer Inducements**

As has been previously reported on by GMB, the practice of offering incentives to members of defined benefit schemes, in exchange for them giving up their protected pension rights has been under scrutiny from the Pensions Regulator. The Regulator has therefore launched a consultation on strengthening his guidance in this respect. He has said "Trustees should start from the presumption that such exercises are not in members' interests and should be approached with caution."

More at <http://www.thepensionsregulator.gov.uk/press/pn10-14.aspx>

And see GMB's current guidance at <http://www.gmb.org.uk/pdf/11%20-%20Inducements%20to%20Give%20Up%20Pension%20Rights.pdf>

### **Regulator Issues First Contribution Notice**

Since the Regulator was introduced in 2005, he has had the power to issue Contribution Notices, which are essentially instructions to employers to make payments at a specified level towards their pension schemes. This has happened for the first time in July. The Pensions Regulator's Determinations Panel found that Michel Van De Wiele N.V. (the sponsoring parent company of textile machinery business Bonas) had retained the Bonas business while avoiding the pension liability, by placing Bonas into a pre-pack insolvency, and had not engaged openly with pension trustees or the regulator. Consequently a £5m Contribution Notice has been issued for payment to the Bonas Group Pension Scheme.

### **Helping Trustees Monitor an Employer's Covenant**

Among the many duties of pensions scheme trustees is a responsibility to keep under review the ability of the sponsoring employer to fund the pension scheme. To help in monitoring the employer covenant, the Regulator has launched a draft updated guidance.

More at <http://www.thepensionsregulator.gov.uk/strength.aspx>

## **PENSION PROTECTION FUND (PPF)**

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-April 2010 update, which showed a combined deficit of £2.2bn. More recent figures show that the combined position revealed:

- A surplus of £11.7bn at the end of May 2010, and
- A deficit of £21.8bn at the end of June 2010, and
- A surplus of £6.6 billion at the end of July 2010 (an improvement from the deficit of £108.7bn that was reported in July 2009)

## **NEST**

NEST (which used to be known as Personal Accounts) is the new system of minimum occupational pension provisions which is intended to take effect from 2012. The NEST Corporation now has its very own website, which can be seen at [www.nestpensions.org.uk](http://www.nestpensions.org.uk)

## **EQUITABLE LIFE POLICYHOLDERS**

The review into the much publicised loss experienced by Equitable Life policyholders, as initiated by the Labour Government; was completed in July. This, and the Government's subsequent announcements, can be seen at [http://www.hm-treasury.gov.uk/fin\\_equitable\\_life.htm](http://www.hm-treasury.gov.uk/fin_equitable_life.htm)

The review recommended that compensation to the tune of £400m be paid to policyholders, although this sum is being derided as insufficient. The Government has launched a Bill to legislate for compensation in line with this amount.

## **INVESTMENTS**

The Financial Reporting Council promotes itself as the UK's independent regulator responsible for promoting high quality corporate governance and reporting. They have produced a Stewardship Code for institutional investors including trustees and fund managers acting on their behalf. Although voluntary, the Code will be applied on a "comply or explain" basis.

The Code encourages principles amongst investors, including:

- Public disclosure of policies on how investors discharge stewardship responsibilities
- Implementing and disclosing policy on managing conflicts of interest
- Monitoring investee companies

- Establish guidelines on how and when activities will be escalated
- A willingness to act collectively with other investors
- Establishing a clear policy on voting and disclosing voting activity

The full Code can be seen at <http://www.frc.org.uk/publications/pub2307.html>

### **GMB CONGRESS 2010**

A successful Pensions Fringe was held at GMB Congress in Southport with more than 50 attendees. The Department highlighted the achievements and shortcomings of the Labour Government from a pensions perspective, before moving on to outline our concerns for the future.

### **TUC MEMBER TRUSTEE NEWS**

TUC has published the Summer 2010 edition of its Member Trustee News. This can be seen at: <http://www.tuc.org.uk/pensions/tuc-18283-f0.cfm>

**That's all for this edition. More information on our sections of the GMB website at**  
[www.gmb.org.uk/pensions](http://www.gmb.org.uk/pensions)  
**and**  
[www.gmb.org.uk/pspc](http://www.gmb.org.uk/pspc)