Trust and Confidence in Pensions - Parliamentary Ombudsman Report

Briefing for Liberal Democrats

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Room O, Portcullis House

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Parliamentary Ombudsman verdict

- Maladministration caused major injustice
- Official information incomplete, misleading, inaccurate – broke DWP own guidelines
- Policy decisions and framework also to blame
- Government has not understood what it has done
- Compensation and consolatory payments should be paid
- FAS not appropriate remedy

What happened after Maxwell?

- Government policy to make people believe occupational pensions were secure – to keep state pension low
- Minimum Funding Requirement brought in, members told it protected accrued rights even on wind-up – but not true
- Official material said these pensions were ‘safe’ ‘protected’ and ‘guaranteed’ – but MFR never aimed at solvency
- Behind the scenes, officials said MFR should only give 50/50 chance of full pensions – then weakened twice
- This is **not** the fault of trustees and employers
- Wind-up rules damaging - annuity requirements and priority order - plus inadequate funding standards

MFR and wind-ups

- MFR completely inadequate to ensure sufficient funds on wind-up – never considered annuity buyout
- State pension = Basic Pension + SERPS/S2P
- Can contract out of SERPS/S2P to get a GMP instead
- But > 1997 GMP's only protected by MFR - these were supposed to be '**Guaranteed Minimum** Pensions'!
- Solvent employer wind-ups also only required MFR
- Priority order took away trustee discretion and rising annuity costs reduced MFR adequacy further

What happens on wind-up?

- Priority order set by law overrides scheme rules
- Assets must first be used to buy index-linked annuities for those already drawing pensions
- Annuities are very expensive - if there is no money left after buying these, other members get nothing
- Not even proper protection for contracted out GMP
- Irrespective of age, length of service, amount contributed or transferred in from other schemes
- Many have lost entire occupational pension and state pension too

Stan Carpenter - age 66. Perivan.

Expected pension: £86pw	Actual pension: £17pw
Of this, GMP should be £48pw	About one-third of GMP
Occupational pension £38pw	No occupational pension at all!

State pension statement says £48pw is being deducted from his S2P because it should be coming from his company scheme. But it isn't!

If he had never put any money into his company scheme he would now be getting £31pw week more and would have had use of the 35 years' money he contributed to the company pension!

Official assurances misleading

- Like forcing members to bet their retirement income on one share in the stock market
  - If company fails, they lose their money (and their job)
- Inland Revenue did not allow any other pension, no chance to diversify and protect pension
- Denied an informed choice, official information was wrong
- Like encouraging people to travel on a road, telling them it is totally safe, not warning of hidden landmines and when injured, Government says they should not have believed it was safe!
- 1 out of every 100 members have lost pension!

Maladministration <u>and</u> policy to blame

- 1997 removal of ACT relief undermined MFR calculation
- 1998 and 2002 Government weakened the MFR
- Government told public it would issue materials they could trust, but did not take care to inform properly
- Reviews failed to address lack of protection on wind-up
- Government ignored warnings about rising annuity costs on buyout
- Failed to consider risks of solvent employer wind-ups

Incompetence or deceit?

- Government promoted/encouraged joining but never warned of the risks
- These were no longer private schemes once wind-up starts, they are governed by law, not trustees!
- They had an official ‘kitemark’ of approval, no warnings
- Government ignored actuarial recommendations to strengthen MFR and warn members
  - Worried about contracting out and employers
- This is maladministration and broke own guidelines

Maladministration – mis-selling

- Government literature promoted joining employer schemes, without mentioning risks
- Did **not** make clear anyone needed financial advice or that the official materials were unreliable
- If financial companies encourage purchase of risky products, with no risk warning, liable for compensation
- If there is financial loss, purchaser must receive compensation
- Can't have one rule for financial companies and another for everyone else
- Government must compensate for losses

The DWP Said...

- For example – DWP leaflet 2003
- ‘Occupational pensions. Your guide’ - Sections headed:
  - ‘How do I know my money is safe?’
  - ‘What happens if things go wrong?’
  - ‘What else do I need to think about?
    - **No mention of risk of pension loss on wind-up**
    - **Just reassurance – Inland Revenue approved schemes, assets separate from company, Regulator look after member interests**
    - **People relied on this and were misled**

Why Government case is wrong

- This would not be underwriting private investments – these were quasi-Government schemes
- If lifeguards only look on top of the water, can't blame someone else when people drown!
- Trustees could not get more than MFR
- General guides still need to include wind-up risks
- Maladministration – leaflets and MFR decisions ignored wind-up risks, solvency and solvent employer schemes
- Causal connection – members relied on Government assurances, could have retired, left scheme, encouraged better funding etc...denied opportunity to choose

Not maladministration if it has high costs!

- Maladministration has occurred – that was made clear
- £15billion figure totally outrageous – to frighten MPs
- Cost should average around £100-£150million a year – can come from taxpayers or unclaimed assets
- Overwhelming public interest argument – morally wrong
- Restore confidence and trust in Government and pensions
- It is up to MPs to ensure justice

Why Government is responsible

- Government promoted membership of occupational pension schemes
- Government issued information which told them it was safe, no mention of wind-up risks
- Government encouraged contracting out of state scheme, without proper safeguards on wind-up
- Government was in charge of overseeing MFR
- Government lulled members into a false sense of security

Parliamentary Ombudsman verdict

- This injustice is the fault of Government
- Financial losses due to maladministration AND policy decisions, legal framework of pensions
- Trustees not to blame
- Employers in most cases not to blame
- Full compensation, plus damages recommended
- PPF levels not enough – still large reductions and people have now been warned so expectations can adjust

Trust and confidence in pensions

- Government has not yet accepted its responsibility
- This demands 'compensation' for losses not just assistance – Financial Assistance Scheme not suitable
- Financial firms would have to compensate for losses if they encouraged investment and failed to warn of risks
- If these people are not compensated, how can people trust any Government on pensions future?
- White Paper to encourage personal responsibility and savings culture
- Cannot trust reforms if this issue is left unresolved

The cost need not be so high

- Stop buying annuities – excessive cost
- Treasury would need to find £100-£150million a year
- Compare: Pensions tax relief > £20*billion* a year
- Contracted out rebates > £11*billion* a year
- £1.5m lifetime limit changes – cost £hundred millions
- Inland Revenue writes off £700m uncollected tax a year
- Cost of compensation tiny in DWP budget terms – could also come from unclaimed assets

Summary

- Parliamentary Ombudsman verdict unequivocal
- This could not happen in any other country, nor before 1997
- These people will not go away – EU court case, judicial review, PASC
- This is 1 in 100 members – not some tiny issue
- They have been dreadfully treated – we should be ashamed that this has happened – the suffering is awful
- No-one they know will trust pensions

PLEASE SUPPORT PROPER COMPENSATION NOW!