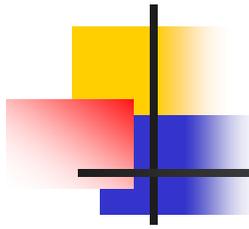


Security of Occupational Pensions What can go Wrong...

Pensions Management Institute Spring Conference

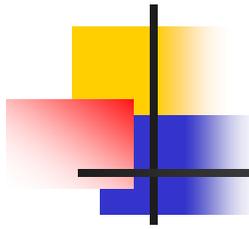
11th March 2004

Dr. Ros Altmann



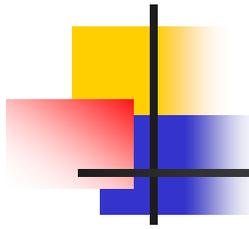
What Has Gone Wrong

- Employer final salary schemes promoted as 'safe' and 'guaranteed'
- Members not warned that pensions depend on employer staying in business
- Thousands trusted the Government and pensions system, but 'lost' their pensions on employer insolvency
- The law only protects those already receiving pensions
- Members' contributions being used to pay *other* people's pensions
 - Trustee discretion over-ridden



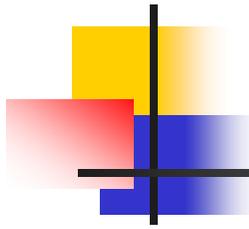
How Does This Affect People?

- Can contribute for 40 years and get no pension
- Irrespective of age, length of service or amount put in
- Money transferred in from other schemes not protected
- Even GMP's not protected
 - These were '**Guaranteed Minimum Pensions**'!
- 1997 removed requirement to warn of insolvency risks
- Lulled members into false sense of security



Aims Of 2004 Pensions Bill

- Improve protection
- Restore confidence
- Pension funds are supposed to pay pensions
- Pensions law is supposed to protect pensions
- We've heard this before



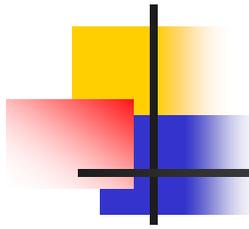
Let's Compare 1995 Act with Pensions Bill 2004

1995

1. Legislation to improve confidence and security
2. Compensation scheme for fraud
3. Introduced MFR to ensure adequate funding
4. New regulator (OPRA)
5. Member nominated trustees

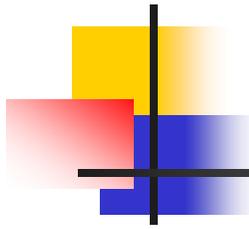
2004

1. Legislation to improve confidence and security
2. Pension Protection Fund insolvency compensation
3. Scheme specific funding
4. New regulator (replace OPRA)
5. Member nominated trustees at least one third
6. Trustee competence improved



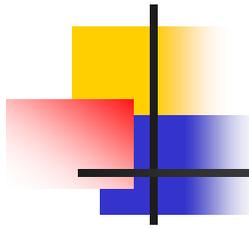
Compensation Essential to Restore Confidence

- It is less than 10 years since these last measures
- People believed that they were protected
- If those who trusted last time are not compensated, how can confidence in the future be restored?
- Core part of this Bill should be compensation



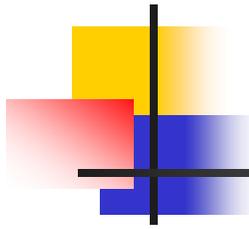
Effect of our Pensions System

- Like forcing members to bet their retirement income on shares of one company on the stock market
- If that company fails, they can lose all their money (and their job too!)
- No-one ever explained this to them, they were completely unaware of the risks
- Many in their 50's can do nothing about this now
- Government has failed to act with due care
- Government must compensate



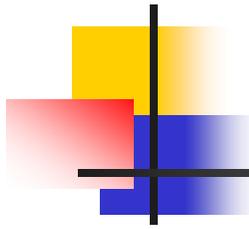
Why is Government Responsible?

- Successive Governments promoted/encouraged joining
- Allowed employers to make membership compulsory
- Inland Revenue prevented any other pension
- Official documents contrasted 'safety' of final salary with 'risky' money purchase - no risk warning
- Government dictates priority order to trustees
 - interfered with private sector arrangements
 - prevented fair division of assets



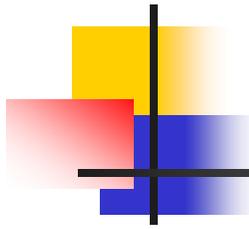
Government Mis-selling Pensions

- If financial companies encourage purchase of risky products, with no risk warning, liable for compensation
- If there is financial loss, purchaser must receive compensation for mis-selling
- Government literature promotes joining of employer schemes, without mentioning risks
- This could still happen tomorrow!
- Government must, therefore, compensate for losses



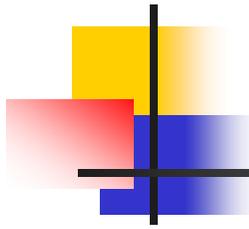
Let's Look at the Official Advice

- FSA Guide to Pensions:
 - 'Reasons for joining an occupational pension scheme if you can'
 - **'In a final salary scheme you know broadly how much pension you'll get. This makes it easier to plan for retirement'**



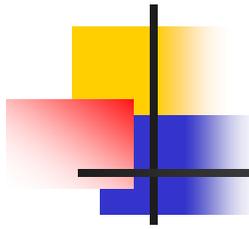
The Government Said...

- Pensions Green Paper, December 2002
 - **‘Accrued rights...are clearly protected under pensions legislation and this will remain the case’ – p.55 Technical paper**



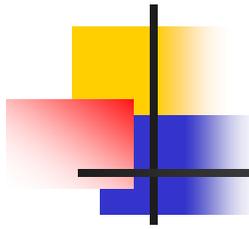
The DWP Said...

- The Pensions Service (DWP) 2003
- 'Occupational pensions. Your guide'
 - **'How do I know my money is safe?'**
 - **'you are protected by a number of laws'**
 - **'OPRA can act quickly to protect your interests'**



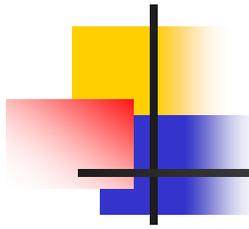
How About OPRA?

- Guide for Trustees (subsequently changed):
 - **The 1995 Act 'was intended to increase the security of members' benefits'**
 - **The MFR refers to the minimum amount of funds that should be in the scheme at anyone time in order to meet the scheme's liabilities if it were to be discontinued'**
 - This is not true, but trustees relied on it!



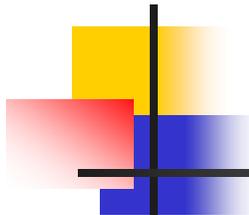
The NAPF - 2003 (booklet now withdrawn)

- **'Your employer makes a promise of a guaranteed pension ... so you have a simple way of working out the level of your pension'**
- **'The promised pension is not affected by the level of investment returns or interest rates'**
- **'If you are entitled to join your employer's scheme, do so as soon as possible...to secure the future for yourself and your dependants'**



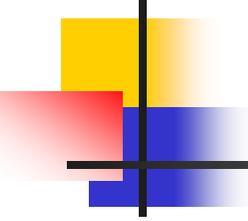
So How Could the Members Possibly Know?

- The whole pension system conspired to prevent them knowing their contributions weren't safe
- No risk warnings were ever given
- Support for compensation is right
- How can we restore confidence without it?
- Why should anyone believe it is safe this time otherwise?



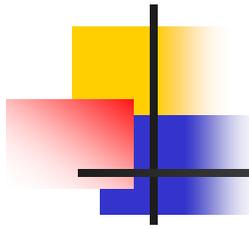
It is Right for Taxpayers to Pay Compensation

- Fairness and social justice
- Morally wrong to leave them without their pensions
- Overwhelming public interest argument – restore confidence and trust in Government and pensions
- Justifiable use of taxpayers' money
- Cost should average well under £100 million a year
- Taxpayers pay £14 *billion* a year in pension tax relief
 - This only goes to people contributing to pensions



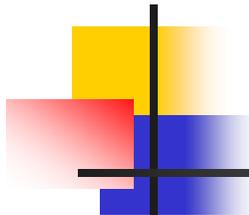
Urgency of Agreeing Compensation Now

- Use each scheme's assets to pay pensions -no annuities
- Interim protection fund, run alongside PPF
- Government then has several years to set aside money
- Most schemes have enough to last for years
 - e.g. ASW: Assets £71m, Annual pension cost £1.8m
- ... ISTC and Amicus are suing the Government – compensating now much cheaper than losing in Court!



Let Me Introduce You ...

- To some of the people who have contributed for decades to their employer pension
- ...and now find their promised 'safe, secure, guaranteed' pension has gone
- They are too old to start again and their retirement was carefully planned
- Yet it has fallen apart through no fault of their own

The logo features a vertical black line intersecting a horizontal black line. To the left of the intersection are three overlapping squares: a yellow one at the top, a red one on the left, and a blue one at the bottom.

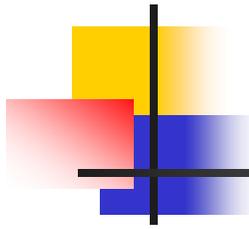
Dexion

DON

- Age 62, 38 years' contributions
- Could have retired age 60, but company asked him to stay on-said he would get more pension
- Will get no pension from scheme
- 'I worked since age 15, claimed one week sick pay, never on dole'
- 'I did everything I was asked. I paid into a company pension. I saved for our future. For what?

JENNY & DAVE

- Age 58
- 'We had no ideas of grandeur'
- 'Having watched others forced to work beyond retirement age for financial reasons has been a major motivator to us to put money into the company pension and avoid this situation for ourselves'



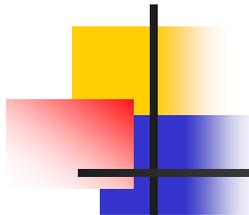
Perivan White Dove

GEORGE

- 40 years' service
- Wife diagnosed with cancer
- 'you give your everything to a company you've known from leaving school'
- 'Nobody can tell us all where the money has gone...'
- 'loyalty counts for nothing'

STAN

- Age 64
- 'I have not only lost my job, but most of all my pension'
- 'So instead of looking forward to my retirement next September, I feel absolutely devastated'
- 'I sometimes think that it is a bad dream and I will wake to find everything is alright'



ASW

JOHN

- Age 60, 35 years' contributions
- Now stacking shelves at Sainsbury's at £4.39 an hour
- 'The stress is unbearable, I am on the verge of a nervous breakdown'
- Director took 'early retirement' age 52, full £60,000 pension, working at Royal Mint on £120,000 a year
- John says 'Why is my money being used to buy a pension for someone else?'

Lister

MAURICE

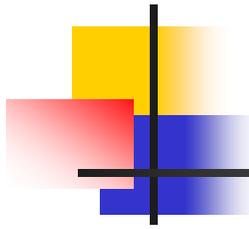
- Age 64, 40 years' service
- Will get no pension from scheme
- 'I saved all my working life to provide for my future. After Maxwell we were told the law would protect us. I never wanted to live on the State, I provided for myself'

DAVE

- Age 61, 40 years service
- No pension
- Reduced SERPS
- Endowment mortgage to 65
- Having to sell house
- 'It is impossible to imagine the stress I am under'
- There are many others in BUSM who have over 40 years contributions, all lost

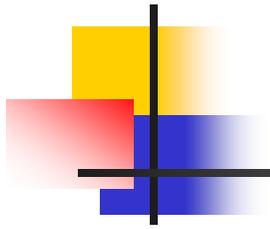
SUE

- Age 52, joined in 1977
- Member nominated trustee
- Never told risk of insolvency
- Original pension was money purchase – 20 years contributions
- Transferred money purchase pension into new final salary scheme started in 1996
- 'We were always told the pensions were safe'



We Could Go On...

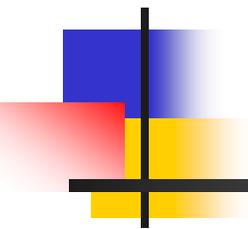
- There are thousands more people like this from hundreds of schemes
- Real people, with real lives, which have been devastated by our pension system
- They did all the right things, they trusted pensions, and their money has been wasted
- How can people trust in the future, if this not put right?
- Compensation essential to restore confidence



The Benefits of Compensation

- Restore confidence in UK pension system
- Ensure people are protected in future
- Restore these people's pensions
- Government could undo the harm caused inadvertently by flawed legislation
- This social injustice could be corrected

**Government can and must put this right
NOW!**



Please support compensation

Dr. Ros Altmann

ros@rosaltmann.com

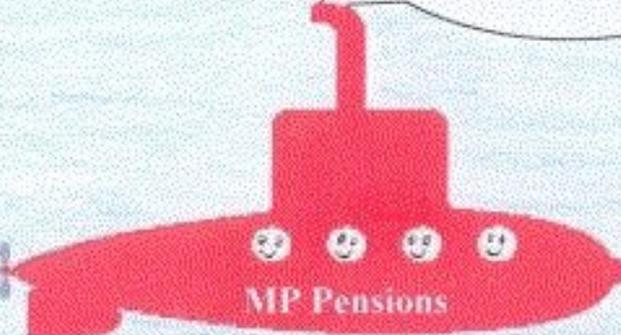
www.rosaltmann.com

Jumblies Pensions - UK Final Salary Schemes

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Pensions law
protects you.



Be confident.
Employer
schemes are best.
Look at us!



Help! Is it safe to
contribute? How do
we know who's
next?



We thought we had a
guaranteed pension.



Why didn't you warn
us? You said our
pensions were
protected.

