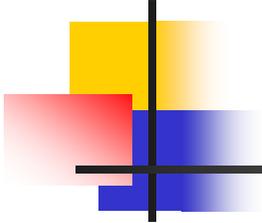


# Trust and Confidence in Pensions - Compensation, not Assistance

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Pensions Summit  
Boothroyd Room, Portcullis House  
21<sup>st</sup> March 2005

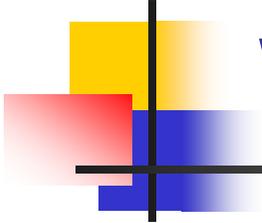
**Dr. Ros Altmann**



# Restoring trust and confidence

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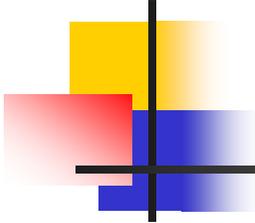
- What happened?
- Why Government is responsible
- Where are we now with FAS?
- Why FAS is a good start, but much more to do
- Compensation, not Assistance
- Restoring trust and confidence



# What happened?

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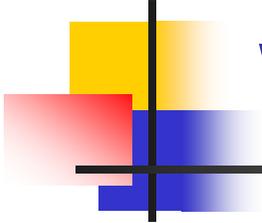
- Final salary pension schemes turned out to be unsafe
- Tens of thousands of members have lost their pensions
- Even some pensioners are having their pensions cut
- Their – and their families' - lives have been ruined
  - Their children and friends don't trust pensions!
- They have been fighting for several years, but still uncertain
- Biggest social injustice of our time



# The effects of this debacle

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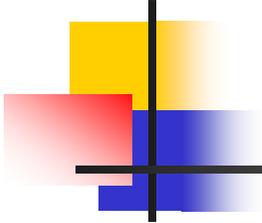
- Confidence in pensions being undermined
- Members saved for decades, often compelled to join and assured they were safe
- Members relied on employers' pension schemes
- Transferred money in from other schemes
- Could have retired but stayed on, some very ill
- Unfair priority order – pay for for other people's pensions
- Even the Government's 'Guaranteed Minimum Pension' is not being paid!



# Why Government is responsible

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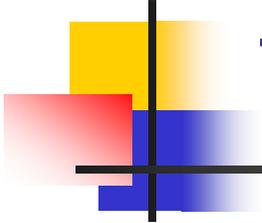
- Government promoted membership of occupational pension schemes
- Government encouraged people to join
- Government issued information without proper care
- Government told them it was safe, no mention of wind-up risks
- Government was in charge of overseeing MFR
- Members were lulled into a false sense of security



# Parliamentary Ombudsman investigation

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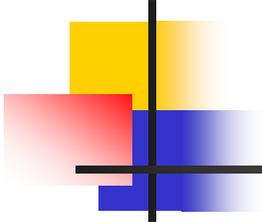
- Government misled members of final salary schemes
- They were never warned of the risks – told it was safe
- Even the Regulator misled trustees
- Members suffered huge losses and were denied the opportunity to protect themselves
- Government failed to act with due care
- MFR oversight inadequate – solvent employers too



# Trust and confidence shaken

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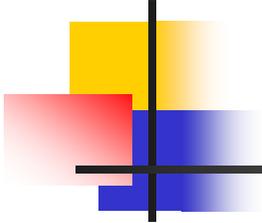
- These people did everything society asked of them
- They were assured their pensions were safeguarded
- If they are not compensated, how can people trust any Government on pensions future?
- When Government says it is safe, can we trust it?
- Be honest in future - and keep your word for past
- 'Guaranteed Minimum Pensions' are not even honoured



# Guaranteed Minimum Pensions

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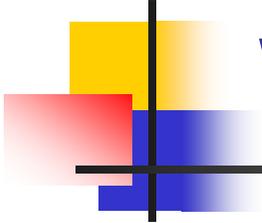
- Government named them – not advisers, trustees or employers!
- Government assurances on pensions – trust? honesty?
- Social security rights transferred to private schemes, but 1997 changes meant safeguards relied on MFR
- Government failed to ensure MFR covered GMP's on wind-up
- No financial company could get away with this!
- Should provide GMP from state scheme (as pre-1997)
- Compensation for loss of own company pension on top!



# Financial Assistance Scheme So Far

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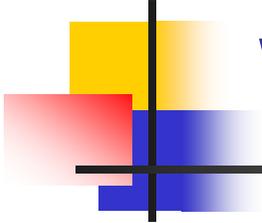
- Government has agreed to pay £400m over 20 years
- Some of those within 3 years of pension age to get 80% of 'core' benefits, capped at £12,000
- Fantastic first step
- But much more is needed to sort this out
- Treasury must make more money available



# Why FAS is not enough

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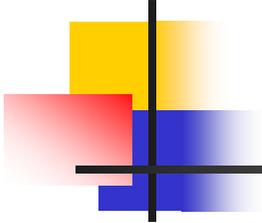
- Members still do not know exactly **who** will be helped, **how much** they will get or **when** they will get it
- 380 'potentially' eligible schemes – will some be excluded?
- Those in ill-health are not getting their pensions and need them NOW
- Must wait till wind-up finished – could take years
- Solvent employer schemes excluded



# What is missing?

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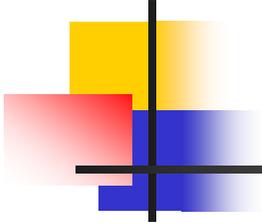
- What about those > 3 years from pension age?
- 80% of 'core benefits' (?) Why 80%?
- Have to wait till age 65?
- £12,000 cap unfair - penalises long serving members
- No inflation linking.
- What will spouse cover be?
- What about the lump sum that was being relied on to pay off the mortgage?



# Solvent employer schemes

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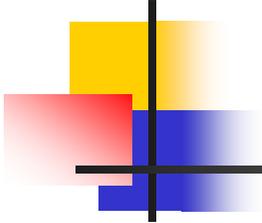
- These people have been excluded from all proposals
- But they have suffered the same injustice
- Members are powerless to get their pensions back
- The blame lies with the MFR and funding inadequacies
  - Government failed to consider annuity buyout costs
- Trustees had no idea that compromise could lead to pension losses - would have forced insolvency
- Burgess...Parsons... Henlys... APW... – gross injustices



# Compensation not Assistance

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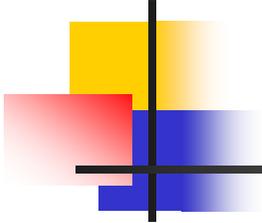
- Government has not yet accepted its responsibility
- This demands 'compensation' for losses not just assistance
- Financial firms would have to compensate for losses if they encouraged investment and failed to warn of risks
- MFR was weakened – but Government still assured members they were safe! Annuity costs were ignored.
- Taxpayer must compensate for inadvertent Government mistakes
  - Farmers did not have to beg and fight for years



# The cost need not be so high

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- Stop buying annuities? – FAS/PPF admits excessive cost
- Treasury would need to find under £100 million a year
- Compare: Pensions tax relief > £10 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 - and save on pension credit, FAS payments to be taxed

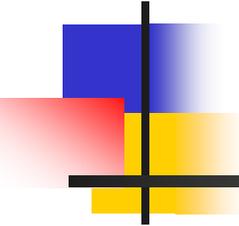


# Starting to Restore Confidence

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- Reassure people that Government's word on pensions can be trusted
- Restore these people's lives
- The uncertainty and unfairness are unacceptable
- Some have already died and many more will die before they get help – it's wrong to make them wait and fight any more, end their misery

**AGREE PROPER COMPENSATION NOW!**



# Support proposals for compensation

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Dr. Ros Altmann

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