INTRODUCTION

1. Prospect is an independent trade union representing over 115,000 managers, specialists and professionals in both the private and the public sectors in a range of industries and organisations from telecoms and IT to aviation, agriculture, defence, energy, environment, heritage, industry, scientific research and children’s services.

2. Our members are keenly interested in pensions. Many of them benefit from defined benefit provision, with some continuing to be active members of defined benefit schemes and others with some DB provision in their previous employment history. Of course, a growing number have defined contribution provision. We do our best as a trade union to assist our members to protect and advance their interests, whether that means helping preserve DB entitlement, or benefits structures; or in making DC schemes as good as they possibly can be.

3. Prospect welcomes the inquiry into the Pensions Protection Fund and the Pensions Regulator that the DWP Committee has launched; as well as the opportunity to submit this brief written evidence.

PENSIONS PROTECTION FUND LEVELS OF COMPENSATION

4. Prospect supports the principle of the Pensions Protection Fund and the notion of compensation for scheme members who would otherwise lose their pensions as a result of the insolvency of their employer. We are also happy to work with the Regulator to improve the quality of governance and administration of pension schemes. Even so, we are also of the view that the Regulator’s approach to scheme funding is contributing towards higher deficits, scheme closures and, in some instances, dragging employers down. This is a result of the lack of flexibility it exhibits to the assessment of scheme liabilities in the atypical and very particular circumstances in which schemes currently find themselves.

5. We would like, however, to bring to the Committee’s attention a level of disquiet about how the PPF operates the compensation scheme.

6. The Committee will be aware that PPF compensation operates on the basis of a small number of principles: those already over retirement age and drawing a pension are provided with compensation payments of 100% of their pension, while those below retirement age are promised payments of 90% of the value of their pension; there is a financial cap on the benefit provided; and indexation of pensions in payment (and in deferment) is provided, but on the basis strictly of the statutory limits. This means that post-April 1997 service has limited price indexation, of inflation up to 2.5%; but that no indexation is made in respect of any service prior to April 1997. We should be clear here that this is not the fault of the PPF, but of the policy framework set for it by parliament and within which it must work.

7. We are supportive of the principle of extending the compensation cap to cover long service and would encourage DWP to progress the implementation of this as a matter of urgency. The enabling powers have been in existence for some time and it is disappointing that detailed regulations which would bring effect to these have not yet
been progressed. We look forward to the government bringing forward the appropriate regulations at the earliest opportunity.

8. However, it is the issue of how pensions are indexed by the PPF that we would like to highlight to the Committee here; our evidence is based on the specific example of the experience of Prospect members in AEA Technology, with many suffering significant losses of indexation rights as a result of their scheme falling into the PPF.

**AEA TECHNOLOGY**

9. AEA Technology emerged out of the UK Atomic Energy Authority in November 1996 under the terms of Atomic Energy Act, with 4,000 people transferring to the new, private sector employer. On transfer, people had the choice of staying in the UKAEA scheme or joining the new scheme at AEA Technology, with the latter specifically established on the basis of terms which had by statute to be ‘no less favourable’ than those in their former scheme. A GAD note accompanied the arrangements and most employees took the decision to transfer. By 2012, however, AEA Technology was struggling to meet the demands of the deficit in the scheme, announcing to employees on 12 November that it had not been possible to put in place an acceptable funding plan to restore the scheme to solvency. The result was that the company took out pre-pack administration, and was eventually sold as a going concern to Ricardo, with the exception of the liabilities of the pension scheme, which had entered the PPF assessment period as a result of AEA Technology going into administration. This announcement had a devastating impact on all scheme members, whatever their relationship to the scheme.

10. In membership of their previous scheme, the publicly-funded UK Atomic Energy Authority scheme (PNISS/CPS), members retiring had their pensions in payment fully protected against inflation, in line with the Retail Price Index. Under the PPF, only that part of their service post-April 1997 is indexed – coincidentally, given the dates involved, this means that none of our members’ service as public service employees is indexed. This is causing considerable hardship, as we will go on to explain. Before we do so, we should note that the PPF accounts for the complexities involved in applying the statutory limits by taking a proportionate approach to indexing compensation payments: to take the example of a member with 30 years of service, twenty prior to 1997 and ten subsequently, then the annual inflation-linked increase is applied to only one-third of the level of the compensation payment.

11. Prospect has engaged in a substantial amount of lobbying on behalf of our members in AEA Technology, including engaging directly with Steve Webb, the former Pensions Minister.

12. However, large numbers of our members in AEA Technology are in the desperate situation of essentially seeing their pensions wither on the vine as a result of the total loss of pre-1997 indexation rights. In researching their situation, we took evidence from them directly and would like to present to the Committee two particular examples.

13. One female member, MH, was born in 1947 and started working for the UK Atomic Energy Authority in 1974, transferring into AEA Technology in 1996 and then leaving the company at the end of 1999. Thus 90% of her pension is drawn from pre-1997 service, so only 10% of her compensation payment will be indexed. Her starting pension, based on her final salary, was £9,073 but just £890 of this will be indexed under the PPF rules. If MH lives twenty years in retirement, her pension at that point will have risen to £9,640
– an increase which amounts to less than £30 per year (an increase of around 54p per week). If the whole of her pension had been indexed by a long-term inflation assumption of 3% then it would have grown by then to £16,386: a total loss, in that 20-year period, of over £64,000 (nearly 25% of the total income she could have expected).

14. One other member, GM, was born in 1949 and, like MH, started out at the UK Atomic Energy Authority, in his case in September 1967, before transferring into AEA Technology in 1996 which he left (under medical retirement rules) in 2004. His starting pension was £14,730 but, under the PPF rules, only around 20% of his compensation payment is indexable. Again, presuming he lives twenty years in retirement, GM’s pension will have grown by that point to £16,580, whereas, assuming inflation of 3% per year, it would otherwise have been in excess of £26,000. This represents a cumulative loss to him of £95,200, some 18% of his expected total amount of pensions income had his starting pension grown in line with a reasonable long-term inflation assumption of 3% per year.

15. It will be readily apparent that neither MH nor GM, both of whom are already drawing their pensions, is a pensions ‘fat cat’. Their starting pensions were well within the compensation cap that the PPF applies: assuming a twenty year retirement, their pensions would not normally have grown by that point even to reach the level of the cap as it applies today. Yet they are being heavily punished by this strict application of the statutory indexation regime, i.e. by the simple fact of their substantial amounts of pre-1997 service as a proportion of their total service.

16. Furthermore, and critically from Prospect’s point of view, neither MH nor GM, at the point at which their scheme fell into the PPF, are capable of making additional savings to cope with the scale of the loss they are now facing, as younger employees, or those still active in the labour force, might be expected to be able to do. Neither is paid employment a realistic prospect: MH is now nearly 69; while GM is nearly 67 and with a background of poor health resulting in his being offered medical retirement from AEA Technology. Both are now facing substantial difficulties in their retirement caused by a pension which will grow only fractionally from its current day value. This situation is not only no fault of their own, as both saved and worked hard for their retirement, but neither of them – nor any of the other Prospect members who volunteered their details to us as part of our research – is in any position to make alternative pension provision for themselves at this stage of their lives. This is a very poor reward for a lifetime of hard work – and it is the result of a public policy decision which has turned out to do shamefully little for them.

17. We should also observe here that we are currently in a period of low inflation. No-one knows what the future will bring, but if inflation rises sharply, an income which offers little opportunity for growth in response will exacerbate the hardships. The prospects of this – and older people are well able to remember times of substantial inflation – can only deepen the stress and the worries that our members are already experiencing, with a subsequent impact on their mental health.

18. It is also worth pointing out to the Committee that there is an issue here surrounding the accountability of public funds. The scheme that our members were in prior to their transfer into AEA Technology was a notionally-funded public sector scheme in which the indexation provisions which existed were accounted for in line with the practices of such schemes generally. On transfer into the private sector arrangement in 1996, sufficient funds would have been made available out of the public purse to the AEA Technology scheme in order to cover off the liability to provide for the indexation of the pensions of those members who transferred into it, even though there was no statutory right to
indexation existing at the time. Thus, not only does the situation of the AEA Technology scheme falling into the PPF reflect the loss of indexation rights for our members, in line with the rules that it applies on its compensation payments; it also reflects a loss to the public purse since the assets which were made available to cover those specific rights have now been lost. An argument could be made that these assets have been transferred into the Pensions Protection Fund – but a situation in which these are not being paid out to our members, in line with not only the expectations of everyone at the time but also in line with specific provision from the public purse, is one that is clearly most unjust.

19. An outcome that is the result of a public policy decision can be reversed by a decision to come to an alternative, more consciously appropriate arrangement. Prospect urges the Work and Pensions Committee, in its deliberations on the work of the PPF, to make recommendations for how parliament may address this situation. We believe that parliament must restore to the members of pension schemes that fall into the PPF a decent level of long-term protection against inflation that does not penalise people on the grounds of when their service was made.

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