FURTHER OBSERVATIONS FROM THE NATIONAL FEDERATION OF OCCUPATIONAL PENSIONERS ON THE ORAL EVIDENCE SESSION OF THE WORK AND PENSIONS COMMITTEE HELD ON 2ND NOVEMBER 2016

Q1. Does existing regulation work in holding employers to pension promises while providing support to the most struggling businesses?

In Neil Carberry’s response he emphasised the need to reiterate the Pension Regulator’s statutory obligations

- to minimise any adverse impact on the sustainable growth of an employer (in relation to the exercise of TPR’s functions under Part 3 of the Pensions Act 2004 only).

My own view would be that it should be amended to:

- may to minimise any adverse impact on the sustainable growth of an employer (in relation to the exercise of TPR’s functions under Part 3 of the Pensions Act 2004 only).

Whilst accepting the strain placed on companies in reducing the pension deficits and the conflict with company growth, if the planned growth and resultant strengthening of the covenant is not achieved the pensions scheme suffers a double blow as the deficit will remain and the covenant could be potentially weakened.

Q2. What are the barriers to trustees doing their job to safeguard member benefits and what needs to change to better protect pensioners?

As I said during the hearing there is a need for an independent trustee. That independent trustee should be charged with a role similar to that of the Senior Non-Executive Director set out in the corporate governance code. The independent Trustee would be required to bring to the attention of the Regulator any concerns relating to the scheme funding, including disproportionate increase in Senior Executive salaries or dividends with no corresponding uplift in payments to the scheme.

Q3. Schemes could benefit from economies of scale by consolidating. What should be done to promote it?

Consolidation of smaller schemes should be encouraged providing that it is not used as an opportunity to change the member benefits. Joint administration, back office functions, with a single advisor and combined investments, would be an initial first step allowing schemes to retain their individual identities whilst achieving the economies of scale.

It would also allow smaller schemes to benefit from an Independent Trustee to act across all the schemes.

Q4. Are pension deficits measured in the right way? What effects does the current methodology have?

There is already significant debate round this topic. If the current methodology is overly conservative this may result in companies facing unrealistic demands, which would hamper growth, and risk schemes unnecessarily being forced into the PPF.
Q5. Currently schemes either pay full benefits or go into the PPF. Should there be more flexibility in between? And what needs to be done to allow this to happen?

The introduction of something akin to a health authority or school being placed in special measures as described by Richard Graham has the potential to benefit the scheme and members. Entering the PPF should be a matter of last resort. If a scheme can survive on a ‘no deterioration basis’ with enhanced reporting to and monitoring by the Pensions Regulator and PPF, both the company and members potentially benefit. It would then allow the company and scheme to return to normal operations as circumstances improve.

It was suggested that a legislative change should be considered allowing Trustees to move from RPI to CPI. Such a blanket statutory change would allow companies, who could afford to continue to meet their obligations, to change the rate to remove or reduce a deficit. A more restrictive piece of legislation giving the power to the Pension Regulator to authorise a change in the uprating rate for a specific period, where this would result in a scheme avoiding entering PPF, would protect the members and allow a return to the previous methodology where situations improve.

It would be beneficial not to specify the specific inflation index as there is significant work being carried out in an attempt to create an index that better reflects ‘household inflation’. A more general reference to the rate specified in the Social Security Benefits Uprating Order may be more appropriate to avoid future challenges or create the need for further legislative change.

Of particular concern to NFOP members are that those schemes which are transferred to the PPF do not receive any increase for pre 1997 accruals which has the potential to impact on the poorest pensioners. Consideration should be given to continuing to provide increases where the scheme included pre 1997 accruals in the annual increase prior to entering the PPF. It is important to note the PPF levy does not exclude pre 1997 accruals in the calculation.

Q6. Should the Pensions Regulator be seeking to intervene earlier in potential problem schemes?

Ideally the Pension Regulator should have sufficient resources to intervene as soon as issue are identified. These should include:

- Failure to comply with requests for information.
- Failure to comply with directions.
- Concerns raised by the trustee.

...and finally

During the session intergenerational fairness was mentioned. Whilst from one perspective the current generations are paying for previous generation’s benefits that they won’t receive there are alternative positions that could be considered:

- The pension deficit is treated by the company as an unsecured debt with a generous repayment programme; intergenerational fairness is no longer an issue in this case. As a comparison an overdraft built up over a number of years and converted to a loan would have a similar effect.
- Without the efforts of the previous generations, who in part were attracted to the company by its pension scheme, the company may not be in the position it is in today to provide the role, salary and benefits it does.

If I am able to provide any further commentary or perspective I would be willing to attend a further hearing or make a further written submission.