Pensions

Raising the Profile

Usdaw
Union of Shop, Distributive and Allied Workers

Executive Council Statement to the 2002 Annual Delegate Meeting

Pensions – An Introduction

Pensions … under the spotlight and under pressure

It's usual for people to be turned off by the pensions question, a distant prospect for many and a complex headache for most.

It's an understandable attitude, especially amongst the young, but it's also a dangerous one.

Our pension arrangements of all kinds are increasingly under pressure and all the signs are that some could be in real crisis.

We urgently need to get a grip on the pensions question, to raise awareness and build activity and to change our whole attitude and thinking towards pensions as a trade union issue moving into the 21st century.

It doesn't matter whether we're talking about the time honoured State Pension, the much valued occupational pension or the newer variety of personal and stakeholder pensions, all of us need to move pensions up our personal, our family and our trade union agendas as quickly as possible.

- **Pensions are a personal issue.** A decent pension will help to ensure a dignified and secure life in retirement. The lack of one could see people locked into a fearful, sick and poverty stricken old age.
- **Pensions are an industrial issue.** All forms of pensions, whether State, occupational or personal, will depend on earnings and contributions. In one form or another pensions are deferred pay and/or invested pay and that means a collective bargaining issue for us all.
- **Pensions are a social and an equalities issue.** The old assumptions about a lifetime of permanent full-time work can no longer hold true across the board. People, invariably women, in part-time and intermittent employment could struggle in growing numbers to fund their pension arrangements.
- **Pensions are a political issue.** The extent to which we provide for and support one another after our working lives are over is a measure of any civilised society and any decent Government. This and any future Government will be judged in large part by the way in which it structures, funds and governs decent pensions provision for all our people.

A range of factors, from falling share prices to a larger population of people living longer in retirement, have combined to put real pressure on pension funds of all kinds.

This Statement is designed to look at the pensions options open to us, to build awareness of those options and their relative merits and to propose a strategy for the Union in the years ahead.

What this Statement contains

To do all that, this Statement pursues a number of themes. In particular:

- We look at all the pensions options that there are, from the State Pension to the new stakeholder pensions.
- We look at the position of Usdaw members in retirement.
- We look at Labour's record and reforms on pensions.
- We show you how you can find out about your pension.
- We look at Usdaw's work on pensions.
- We outline a programme of action and our plans to focus more sharply on pensions for the future.

Our approach to pensions

We operate from first principles. Pensions are deferred pay. They are the part of the wage packet that has been put aside to be paid out at retirement.

As such, we take up the issue of pensions with employers in the same manner as we would with any other part of the overall wages and work-related benefits package.

This means entering into discussion, consultation and negotiations with individual employers to get the best possible pension provision for our members.

It also means we must continue to monitor and act upon pension scheme developments and pensions legislation.

Legal Plus – Pensions Advice

The Union provides advice and assistance on pension matters through the Legal Plus Service.

The Legal Department at Central Office has a specialist Pensions Section to support lay and full-time officers and to help members.

Members who would like to be more involved in Union activity on pensions should contact their Area Organiser or the Pensions Section.

The Pensions Options

The world of pensions is a complex one with workers likely to be covered by one or more of a variety of pension schemes. All of these will be dealt with in detail later, but for now it is necessary to briefly outline the pensions options so that we get a basic understanding of what the world of pensions is all about.

The basic State Pension

At the core of all pension schemes is the basic State Pension. This is based on a person's National Insurance contribution records.

The State Earnings-Related Pension (SERPS) and S2P

SERPS is the second tier State Pension which, when it was originally introduced, was seen as an important earnings-related addition to the basic State Pension. It is being replaced in 2002 by the State Second Pension (S2P) which, although on similar lines, is more generous to those on lower earnings.

A Company Pension

These are pensions set up by a person's employer.

In contributory schemes both the individual and the employer make a contribution.

In non-contributory schemes only the employer makes contributions.

Contributions go into a fund which is invested and eventually pays a pension in retirement.

Company schemes may be 'money purchase' or 'final salary'.

Final Salary Schemes: these are schemes where your employer promises you will receive a pension calculated by reference to the number of years you have been in the Fund and the amount of your salary at the time of retirement. The employer effectively underwrites the cost. The amount of pension can be calculated with certainty. A company final salary scheme is generally the best pension option.

Money Purchase Schemes: the employer promises to pay contributions into a fund which will purchase an annuity at the time of retirement. There are no guarantees as to the amount of pension you will receive; that will depend on the vagaries of the stockmarket at the time the annuity is purchased.

A Personal Pension

This is an arrangement set up by an individual employee through an insurance company, bank or building society. At retirement this pension fund will buy an annuity on a money purchase basis.

A Group Personal Pension

These schemes are set up by the employer who may sometimes make a contribution but they operate on the same lines as a personal pension and each individual has their own separate fund. There are no guarantees on the amount of pension that will be paid.

Additional Voluntary Contributions (AVCs)

All occupational pension schemes have to offer members the opportunity to pay AVCs.

These are additional payments (eg £20 a month) which buy a further pension to, in effect, ‘top up’ your existing pension if it is felt necessary to do so and if you can afford the extra contributions.

The combined maximum contributions you can pay into an occupational scheme through your normal contributions and AVCs is 15%. As most normal employee contributions are around 5%, this means an employee would, if they could afford to, build up significant extra pension funds through AVCs to be used at retirement.

A Stakeholder Pension

These are new pension schemes introduced by the Labour Government in 2001. They are similar to personal pensions but are specifically aimed at the low paid and those not in occupational pensions. The Government has set certain minimum standards for stakeholder pensions, such as low set-up charges, which marks them out as different from other personal pensions.

They are not an alternative to good company schemes. They are useful where there is no pension fund or the member is legitimately excluded from the fund and there is no real prospect of this being changed.

Usdaw Members in Retirement

Retirement can mean different things for our members. For some it is a time of relaxation and contentment with a decent pension. For others it is very much the opposite. This section looks at what might be in store at retirement.

Some of our members will have nothing too much to worry about in retirement

These are likely to be members in good occupational schemes that come with their job. They are likely to have worked all their lives without any significant breaks and kept up their contributions.

Where their pay has been adequate they are likely to receive a full State Pension and a second pension which will keep them modestly or maybe better. This is likely to be true even if their second pension is the State-run SERPS rather than an occupational pension.

Many of our members will find the pension system failing them

Because the whole pension system is built around the idea of people working full-time throughout their working lives, with few or no breaks in employment, a significant proportion of Usdaw members will find that the pension system has failed them because their experience at work does not involve continuous full-time work.

This represents a fundamental challenge to the creation of a fair pensions scheme for the future.

Not every Usdaw member will receive a full State Pension

To qualify for a full State Pension it is necessary to have paid National Insurance contributions for the appropriate number of qualifying years between school leaving age and retirement. This is currently 39 years for men and 34 years for women.

Many Usdaw members will not achieve this level of service (eg women with ‘breaks’ in employment) so will not receive a full pension.

Some Usdaw members will not receive a State Pension at all

To qualify for even a proportion of the basic State Pension you need to be earning at least the Lower Earnings Limit which is £75 a week as at April 2002. This is the point at which you are credited with National Insurance contributions and so qualify for the State Pension. It is estimated that 2.4 million workers, some of whom will clearly be Usdaw members, do not even earn enough to be eligible for the State Pension.

Married women

Until 1977 married women could elect to pay the small stamp (a lower rate of National Insurance contribution). This meant that they did not earn any basic State Pension or SERPS entitlement, instead relying on their husband's National Insurance contributions. Although this choice stopped in 1977 if you were a married woman who had chosen to do this you could continue to pay the lower rate.

Because of the current National Insurance arrangements (especially eligibility to S2P) these married women will probably find that they are better off converting to a full stamp (full National Insurance contributions) now and they should be encouraged to get form BR19 Pension Forecast and the leaflet CA13 National Insurance for Married Women available from local social security offices.

Usdaw members in company schemes

Most Usdaw members have worked in companies where occupational pension schemes have been in place.

Normally company pension schemes, particularly final salary schemes are the best of all pension options.

Not all members have taken advantage of the opportunity to join, a position made worse by Tory legislation giving people the right to opt out of company schemes.

Often schemes excluded part-time workers. Usdaw has for many years, argued that part-time workers should be included and we achieved success in a number of companies, including provision at Tesco, Littlewoods, the Co-op and Index. However, in many other schemes the rules excluded part-time workers until the European Court Ruling in 1994, which held such exclusions to be unlawful and provision is now made for part-time workers in all company schemes where Usdaw is involved.

Many schemes operate a system called 'integration' which works against the lower paid. The schemes exclude from the calculation of earnings a sum roughly equivalent to the basic State Pension. This means that people earning around £70 per week (at current levels) would not benefit from a company pension even if they joined the scheme.

This remains a problem in many schemes even if they are now open to part-time workers and in Usdaw it remains an objective to improve schemes wherever possible to overcome the problems of integration.

Pension schemes are structured around an assumption of 40 years' continuous service, which is not always the norm for Usdaw members. Transferring in and out of schemes can be complicated and have financial disadvantages.

Despite these drawbacks occupational pension schemes are the best form of pension schemes for Usdaw members and, within these, final salary remains the best scheme overall.

In final salary schemes, the employer makes a contribution, underwrites the benefits and bears the risk of investment failing. The pension is certain and can be planned for.

AVC schemes attached to company schemes are better than equivalent private arrangements. Legislation protects the fund and intends information to be shared and transparent.

There is an obligation to include member trustees and some opportunity for the Union to participate and press for improvements for its members.

Usdaw members need a different approach to pensions

To begin with, Usdaw members need a pension system that gives all workers a basic State Pension.

Then they need an overall pension system that does not penalise workers for the fact that working full-time for the same employer throughout working life is increasingly the exception rather than the norm.

The Labour Government has begun to move in the right direction but before we look specifically at Labour's record on pensions, it is necessary to look more generally at what, for many, is still the bedrock of their pension provision, State Pensions.

State Pensions

The State Pension is the bedrock of the income of most Usdaw members in retirement. Yet many people do not know how it works or indeed that the State provides a second pension.

The basic State Pension

A full basic State Pension for a single pensioner is worth £75.50 from April 2002. For a married couple, the full State Pension is £120.70 a week from April 2002.

How the basic pension system works

The basic State Pension is payable in full if you have paid enough National Insurance contributions over 90% of your working life.

At present the Government says a working lifetime is 44 years for men and 39 years for women. So, for a full State Pension men will need to pay National Insurance contributions for 39 years and women for 34 years. However, the situation for women is changing as the retirement age becomes equalised, so that by 2010 women will also need 39 years' contributions for a full pension. Those with fewer years' contributions receive a reduced State Pension.

National Insurance contributions are credited on earnings above a Lower Earnings Limit (£75 a week in April 2002). However, actual payments are not made by the individual until they earn £89 a week as part of the Government's moves to align tax and National Insurance rates.

Anyone earning less than £75 a week does not receive any credits or pay any contributions and is therefore not entitled to the basic State Pension.

The good things about the basic State Pension

The basic State Pension underpins all the pension provision in this country. It is universal and without means testing so that everyone knows about it and claims it.

However, it is not enough on its own and members need to take advantage of opportunities to join company schemes or stakeholder pensions in addition.

Change to the State Pension age for women

From 6 April 2020, State Pension age for both men and women will be 65. The Government will introduce the change gradually from age 60 to 65 for women over a 10 year period from 2010 to 2020 so that:

- If you are a woman born before 6 April 1950, you can claim your State Pension at 60.
- If you are a woman born on or after 6 April 1955 you can claim your State Pension at 65.
- If you are a woman born between 6 April 1950 and 5 April 1955 your State Pension age will be between 60 and 65 depending on your date of birth.

SERPS

SERPS (State Earnings-Related Pension Scheme) is an additional pension provided by the Government. It was introduced in 1978 by the Labour Government and was set on providing a good and reliable second tier pension, paid by the State, financed by National Insurance contributions.

As its name implies, SERPS is earnings-related so the more you have earned, the more SERPS you get.

Contracting out of SERPS

Company pension schemes can contract their pension scheme out of SERPS provided they guarantee certain minimum pension rights known as the Guaranteed Minimum Pension. Most company schemes are contracted out. Employers and employees of company contracted out schemes pay reduced National Insurance contributions.

Members of contracted in schemes or those without a company pension are allowed to contract out of SERPS using a special kind of personal pension which requires no contributions other than the portion of National Insurance contributions which would normally go into SERPS. These are known as 'Appropriate Personal Pensions'.

SERPS and the Tories

In the mid-1980s the Tory Government made some swingeing cuts to SERPS and undermined what had been until then an excellent scheme.

SERPS replaced by a new State Second Pension (S2P)

As a result, the Labour Government, when it returned to office in 1997, undertook a fundamental review of SERPS and reformed and replaced it with a new State Second Pension (S2P) from April 2002. This, other Labour reforms and their record on State Pensions in general are dealt with in the next section.

Labour's Record on State Pensions

Since it returned to office in 1997 Labour has begun to reform Britain's State Pension system. It has also introduced other measures for pensioners. This section looks at these and shows just how much they have done in this area.

Labour's reforms

Labour has made major improvements and changes to Britain's State Pension provision. They are reforms warmly welcomed by Usdaw although we believe there are still areas for improvement which we will mention later.

Labour and the basic State Pension

After many years of linking the increase in pensions to that of inflation, the Labour Government has now broken this link.

First, it gave flat rate increases in 2001 and 2002 which were in excess of inflation at that time. These were increases of £5 and £3 for single pensioners and £8 and £4.80 for pensioner couples.

Then, in the Pre-Budget Report for the 2002 Budget, it guaranteed that the annual State Pension will rise by at least £100 for a single pensioner and £160 for pensioner couples in April 2003. From then on it will rise by at least 2.5% every year, even if the Retail Price Index is below this.

State Second Pension (S2P)

In recognition of the inadequacy of SERPS in its role of being a good State second tier pension, and justified by the growing inequality in pensioner incomes, the Government decided that SERPS would be replaced from April 2002 with the State Second Pension, known as S2P.

Although still based on an earnings principle, there are three main changes, focusing on the low paid and full-time carers, which transform SERPS into S2P. These are:

- People who earn above the Lower Earnings Limit (£75 a week from April 2002) but below £10,500 a year will be treated as if they were earning £10,500 a year.
- The rate at which S2P accrues will be faster on lower earnings bands and slower on higher earnings bands.
- Full-time carers will be treated as if they were earning £10,500 a year even though they may have no earnings at all.

These changes mean that someone earning less than £6,000 a year will have a pension 4.7 times larger than they would have had under SERPS.

The Minimum Income Guarantee (MIG)

The Minimum Income Guarantee is a means tested payment introduced by the Government to help Britain's poorest pensioners. It provides a guaranteed minimum income, in April 2002, of £98.15 for single pensioners and £149.80 for pensioner couples.

From April 2003 the Minimum Income Guarantee for single pensioners will be £100 a week and £154 a week for pensioner couples. Further, any future increases in this will be in line with increases in average earnings.

The Minimum Income Guarantee provides around two million of Britain's poorest pensioners with additional income.

The Pensions Credit

Labour has also introduced the Pensions Credit, which comes into effect from April 2003. This is a measure designed to benefit those pensioners who have a little extra income, such as a small income from an occupational pension scheme or limited savings. This is designed to ensure that these pensioners share in Labour's reform of the pensions system.

The Pensions Credit will guarantee, for example, that from 2003 a single pensioner will not only be guaranteed at least £100 a week but, if they have savings or a small occupational pension, they will get an additional cash amount. This will be 60p for each £1.00 of savings or occupational pension that they have. The maximum additional cash amount that they can get is set at £13.80 a week meaning that these pensioners will be on a guaranteed pension of up to £113.80 a week.

The Pensions Credit will be raised annually in line with increases in average earnings and it is estimated that 5.5 million pensioners will benefit.

Other measures for pensioners

Labour has also introduced many other measures that have helped pensioners, including:

- Free TV Licences for the over 75s.
- Winter Fuel Payments of £200 for every household with someone aged 60 or over.
- Free eye tests for the over 60s.
- Personal tax allowances that rise in line with average earnings increases rather than inflation.

State and other pensions

The State provision of pensions is, for many workers, only the first tier of pension provision. There are other types of pension that form a second tier and these will be dealt with in the next sections of the Statement.

Occupational Pensions

Occupational Pension Schemes

Occupational pension schemes are those set up by employers to provide pension benefits for their employees.

Both Usdaw and the TUC believe that they are the most effective way of providing quality pensions.

Most Usdaw members are employed in companies where there are occupational pension schemes.

The occupational pension industry is in a period of upheaval and Usdaw members need to be aware of what is going on with their schemes and in the pensions world.

Occupational pension schemes are not perfect and in planning for the long-term a pension policy needs to recognise and embrace some of the problems common within them. These issues stem from the fact that pension schemes historically have been founded on the assumption of lifelong, full-time continuous employment with a single employer.

How Occupational Pension Schemes work

The schemes are set up by the company to provide pension benefits to staff.

They may be contributory or non-contributory schemes. In contributory schemes both the employer and the employee contribute. The fact that an employer always makes a contribution is one of the most significant advantages of an occupational scheme.

Most schemes which cover Usdaw members are contributory. Kellogg's is probably the best known non-contributory scheme.

Contributions are invested in the Pension Fund which will have been managed over the years to produce as good a yield as possible in reasonably safe holdings.

Occupational pension schemes are usually final salary schemes or money purchase schemes.

The Final Salary Scheme

Final salary schemes, or defined benefit schemes as they are sometimes referred to, provide a pension based on the member's salary when they retire and the number of years service they have in the scheme. They also provide a range of additional benefits according to their own Rules. These usually include:

- A tax-free cash sum at pension age.
- A pension on early retirement.
- A pension on ill health retirement.
- A pension for spouse, child or other dependant on death-in-service or in retirement.

They work on the basis that for every year of service, the employee builds up a pension entitlement calculated by reference to their earnings when they leave the scheme either at retirement or earlier, hence the term 'final salary'.

Final salary schemes are usually the best option for Usdaw members. In a final salary scheme the employee is guaranteed a pension calculated by way of a definite formula, eg 1/60th of final salary for each year in the scheme.

The employee pays a set contribution but the employers' contributions vary from time to time. The employers usually agree to pay the balance of the costs required to pay for the benefits now and in the future depending on regular valuations which show how much the employers' contribution rate should be.

A valuation of the fund has to be made at least every three years. The valuation shows whether the fund has sufficient assets to meet the liabilities – ie pension promises made to members. If the fund has more assets than liabilities it is said to be in surplus. If the liabilities are greater than the assets there is a deficit.

The Valuation Report shows the level of contributions the employer should make. If the fund is in surplus the employers' contribution could be nil, a situation known as a 'contributions holiday'. If there is a deficit, the employers are expected to pay whatever is needed to balance the assets/liabilities and make the fund solvent again.

In this way the investment risk is borne by the employer and not the individual member. The employer, in effect, underwrites the fund.

Money Purchase Schemes

In a money purchase fund there are no guarantees about the level of pension in retirement.

Members have an individual fund which is invested in stocks and shares and then used to buy a pension at retirement. If the stockmarket is low at retirement the pension can be lower than the member expected. The member bears the risk of the investments doing badly.

Employers on average pay less in contributions to money purchase schemes than to final salary schemes.

Although a money purchase scheme is usually not as favourable an option as final salary, there are many good money purchase schemes. The main point to remember is whether the scheme is final salary or money purchase, an occupational pension is usually a better option than individual private provision.

We are currently experiencing a trend away from final salary to money purchase.

A trade union role in pensions

Occupational schemes are also bound by rules which give Usdaw and our members a chance to participate in management and decision-making. They fit much more readily into the industrial relations model and the fact that pensions are deferred wages and part of the package of pay and conditions derived from work, means that we can discuss them and bargain on them with employers.

Occupational Pension Schemes – problems and challenges

Final salary occupational pension schemes are not without their problems.

They are founded on the assumption that maximum pension entitlement is derived from lifelong, full-time, continuous work with one employer.

So they have not always served low paid and part-time workers as well as full-time, high earning staff.

For many years it was the norm to exclude part-time workers. Although a European Court Ruling 10 years ago opened up pension schemes to part-time workers, there remain barriers which prevent them benefiting notably by reason of integration (explained on page 6).

Some schemes also have eligibility rules which are based on age and exclude the young or those nearing retirement or have a service rule which excludes those with shorter service.

When people leave a scheme they are entitled to defer or transfer their pension. Transferring means that they take out their benefits from their old scheme and use that asset to 'purchase' an equivalent pension in the new scheme.

Pension law is designed to ensure people are treated fairly in the transfer calculation. People who decide to defer in effect leave their pension in the old scheme and their pension is assured a minimum inflation protection. In periods of high inflation those with deferred pensions may lose out.

These are all matters capable of being addressed by negotiating improvements to schemes when the fund is in surplus and other conditions are right.

At the moment the conditions are working against securing major improvements to schemes and our principal aim is to consolidate and safeguard the schemes which we have against the serious threats to final salary occupational pension schemes in the current climate.

There are also matters which will need careful consideration in any major review on policy planning on the future of pensions.

In the Tory years in the name of so-called freedom and free enterprise, companies were prevented from making membership of the pension scheme a condition of employment.

This led to many existing fund members dropping out of schemes and resulted in many new starters not joining at all.

The net result is that in many workplaces Usdaw members are failing to take advantage of the opportunity to join good occupational schemes. This is bad news for them as individuals and bad news for the scheme.

As part of our work to raise awareness of pension issues we must seek to join forces with the companies and promote take-up campaigns for good occupational schemes.

The crisis in Occupational Pensions

Occupational pension schemes, particularly final salary schemes, are facing a period of serious upheaval.

The TUC have announced that there are 1.8 million fewer employees in final salary schemes than there were 10 years ago.

The National Association of Pension Funds 2001 Survey revealed that 46 final salary schemes had closed their doors to new entrants and that the number of schemes switching from final salary to money purchase has doubled.

Usdaw members have already directly experienced this trend. Littlewoods, Morrisons, Somerfield, Boots and Sainsbury's have all closed their schemes to new entrants in recent years and have switched to money purchase arrangements.

Iceland have indicated that they intend to close (but not wind up) their scheme altogether.

Although Tesco have closed the doors of their final salary scheme to new entrants, the company has put in place, after consultation with the Union, a radical new scheme called the Tesco Pension Builder.

This is a new concept and in many respects addresses the difficulties of traditional occupational schemes for women and part-time workers, and may be leading the way ahead.

Growing pressures

A number of factors have come together to act as a catalyst for the trend away from final salary schemes.

Pension funds have suffered a substantial drop in investment income as a result of the stock market slowdown.

At the same time, the reforms put in place after the Maxwell pension disaster, which are designed to protect funds and their members, have begun to bite and some companies claim that the burden of this new red tape is driving them out of occupational or final salary schemes.

One of the main features of this protective mechanism is the Minimum Funding Requirement. This has introduced tougher tests for pension funds to ensure that the assets are in place to meet the liabilities. However, coming at the same time as the stock market slump, it has had the effect of making many funds appear as if they are under-funded and companies have become wary of their commitment to underwrite schemes if there is a funding gap.

New Company Accounting Rules (FRS 17) mean that companies' liabilities towards the Pension Fund have to be recorded more explicitly in the Company Accounts and some fear that this will impact adversely on their apparent profitability and stock market value.

These changes have all come on the back of the Advance Corporation Tax changes introduced in 1997, which cut corporate tax breaks.

There are also factors which reflect the membership of the Fund; principally that people are living longer and in essence drawing more from the Fund.

All these factors have undoubtedly presented some real difficulties for some funds which need to be addressed. However, there is also a charge to be made against others that the pension crisis has been over-hyped and that some companies are joining the exodus from final salary schemes, principally motivated by the desire to drive down costs and to operate a fixed cost regime rather than a more open-ended liability.

The switch to money purchase schemes in industries, such as retail, with a high turnover flag up issues for the future. Dual schemes will be in place, the proportion of staff in final salary schemes will be rapidly diminishing and final salary schemes will not benefit from the 'new blood' of incoming members. There will be an aging membership profile, and an increasing proportion of retired members as compared with contributing members.

This raises real concerns about the long-term viability of these preserved final salary schemes which cannot be ignored.

Personal Pensions

Personal pensions are a matter of last resort. Only someone without a good occupational scheme should consider a personal pension and then only after checking out stakeholder pensions.

How Personal Pensions work

Personal pensions are money purchase arrangements you make yourself, usually through a bank, building society or insurance company who invest the money on your behalf. There is no additional contribution from your employer, the individual bears the risk and the outcome is uncertain.

The problems with Personal Pensions

Personal pensions are plagued by problems for many working people:

- Employers make no contribution whatsoever so the whole funding burden falls on employees.
- People with career breaks, usually women caring for children or older relatives, are not covered without extra contributions.
- Moving between jobs can carry serious financial disadvantages.
- Administrative charges can be disproportionately expensive.
- A series of mis-selling scandals has illustrated the pitfalls which have often been associated with personal pensions in what can be a cut throat financial services market.

Personal or Stakeholder Pensions

For many Usdaw members, the new stakeholder pension will be a more attractive route if they have no other pension option.

For those currently in personal pensions, the most important choice they have is whether to continue their existing personal pensions or transfer to a stakeholder pension.

The benefits of the stakeholder pension are detailed in the next section.

Stakeholder Pensions

Stakeholder pensions are a new form of pension introduced by the Labour Government. Yet what are they, how do they work and will Usdaw members benefit from them? This section looks at all this and gives details of the Usdaw/TUC Stakeholder Pension.

What are Stakeholder Pensions?

Stakeholder pensions are a new second tier pension scheme introduced by the Labour Government in April 2001. They are a low cost, flexible, value for money way to save for retirement. They are for people who do not have the chance to join a company pension scheme and who would be ill served by personal pensions.

How do Stakeholder Pensions work?

Stakeholder pensions are money purchase pensions. They are based on regular contributions paid by the employee to the stakeholder pension provider. This can be a bank or insurance company or other organisation working in co-operation with these institutions, such as the TUC.

From October 2001 most employers without an occupational scheme have had to offer employees access to a stakeholder pension scheme and must, if the individual decides to join one, make deductions into the scheme through the payroll. Employers do not, however, have to contribute into the scheme but Usdaw will, wherever possible, encourage them to do so.

Some employers are exempt from providing access to stakeholder pensions. These are those who employ fewer than five people, where all the employees earn less than the £75 a week Lower Earnings Limit, where they run an occupational scheme that all employees can join or where there is a group personal pension scheme with certain obligations on the employer.

The advantages of Stakeholder Pensions

A stakeholder pension provides a final pension on the same basis as other money purchase schemes. This is one determined by the total amount paid into the scheme plus the investment returns which are then used to buy an annuity that gives a guaranteed pension.

There are, though, additional benefits and features of a stakeholder pension that mark it out as different from other money purchase pensions. This is because the Government has set minimum standards which stakeholder pensions have to meet. These are:

- A maximum annual management charge of just 1% of an individual's stakeholder pension fund.
- A pension on retirement.
- A minimum starting contribution of £20, or whatever figure the individual stakeholder scheme decides.
- Free transfers between schemes.
- Retirement at any age from 50 to 75.

- A tax-free lump sum on retirement.
- A survivors' pension.
- A lump sum payable to survivors on scheme member's death.

Stakeholder Pensions will benefit Usdaw members

Stakeholder pensions will be particularly beneficial to women, part-time and low paid workers who do not have access to an occupational scheme and who may not previously have been able to afford a personal pension scheme. This is because they are:

- Simple, easy to understand and cheap to contribute to.
- Flexible and portable, so that they can match the changing labour market, particularly for those who change jobs or have intermittent work patterns.
- Provide value for money, where running costs are kept to a minimum and ensure good quality benefits from the funds invested.

The Usdaw/TUC Stakeholder Pension Scheme

Usdaw and the TUC have been working together to provide a stakeholder pension scheme, which is simple, secure, flexible and value for money.

The Usdaw/TUC Stakeholder Pension scheme is run by the Prudential, Britain's largest pensions company. We have negotiated a first-class package of benefits and investment options, supported by high quality services and administration.

You can find out more about the Usdaw/TUC Stakeholder Pension scheme at www.tuc.org.uk/stakeholder or by contacting the Pensions Section at Central Office.

Finding out about your Pension

You can find out what your pension is likely to be when you actually retire. This section shows how you can do this and how important it is to get that information.

The need for information about your pension

In order to plan effectively for retirement it is important to have an idea of what your income in retirement is likely to be. This information could also help you decide what action could be taken during your working life to boost your retirement income.

State Pension Forecasts

You can get a forecast of what your State Pension and SERPS will be at your retirement by completing form BR19 available from your local social security office, or from the Pensions Section at Central Office. You can also complete the form online at www.dss.gov.uk.

The pension forecast will tell you in today's money values:

- The amount of pension you have earned already.
- The amount of pension you can expect at State Pension age based on what you might earn before you retire.
- How you can improve your basic State Pension.
- The effect on your State Pension if you stop working before State Pension age.
- The effect of stopping reduced rate married woman's National Insurance contributions to start paying the full rate.

Occupational Pension Forecasts

Employees covered by occupational pension schemes have a right to information about their benefits from an occupational pension scheme.

Some information has to be provided to you automatically and some only has to be provided if you ask for it. There are Government regulations which cover this: the 'Occupational Pension Schemes (Disclosure of Information) Regulations'.

What should be provided automatically?

When you first join a company you must be given details of any pension scheme you may be eligible to join.

This information should include terms and conditions of membership, how contributions are calculated and paid, how benefits are calculated and paid and whether the scheme is contracted out of SERPS.

Details about your pension (and other options) must be given to you when you retire.

Details of your preserved pension and your options should be provided when you leave the pension scheme.

If you are a member of a money purchase scheme you must be given an annual benefit statement showing contributions paid and the current value of your fund (ie the amount of money built up by the contributions paid).

What information do I have to ask for?

You are entitled to see or receive on request:

- A benefit statement if you are in a final salary scheme. This should include:
  - Your membership date as held by the scheme.
  - Details of your benefits now and if you continue as a member of the scheme until normal retirement age. Most schemes nowadays have a policy of providing this information automatically.
  - Details of the transfer value should you leave and transfer your benefits to alternative pension arrangements (unless you are already receiving your pension from the scheme).
- A copy of the scheme's Annual Report and Accounts.
- Information about the scheme's constitution, usually the trust deed and rules. You are also entitled to see any amendments made since the documents were issued.
- A copy of the latest actuarial valuation.

Trade unions also have a right to information about schemes, but only where they are recognised by the employer.

The Department of Work and Pensions (DWP) have produced a series of explanatory leaflets outlining pension choices available. For information call 0845 731 3233 or visit www.pensionguide.gov.uk.

The DWP are encouraging pension schemes to join them in producing combined State/occupational pension statements to enable workers to see in one document the combined level of pension they can expect in retirement from all schemes.

Usdaw's Fight for Part-Time Workers And Pension Rights

For many years it was the norm to exclude part-time workers from pension funds.

In 1994 an historic European Court Ruling opened the pension fund doors to part-time workers and a number of important judgements have followed in the English courts.

Legal breakthroughs

The legal position established to date is broadly as follows:

- It is unlawful to exclude part-time workers from pension funds.
- If part-time workers have been excluded they can bring claims in the Employment Tribunal.
- Tribunal applications must be made whilst still in employment or within six months of leaving.
- Claims can be backdated to 1976 or the date the employment started, whichever is the later.
- A successful applicant must be prepared to pay backdated employee pension contributions.
- Special rules apply to people with a series of linked short-term contracts.

The legal proceedings have a long way to go yet and there are still a lot of issues which will need to be resolved in the test cases currently before the courts.

Making a Tribunal claim … there's still time

About 1,500 Usdaw members have submitted Tribunal applications.

An Usdaw pack is available from the Legal Department if any member wishes to put in a claim.

Claims can be submitted provided you are still in work or have left within the last six months.

Anyone who has recently left or is about to leave should ensure that they have an application lodged.

Anyone wishing to make a Tribunal claim should have joined the pension scheme as soon as they reasonably could. Delays in joining the scheme are a problem.

Usdaw cases already in the Tribunal

There are a group of cases being run through the TUC commonly called the 'Preston cases'. These are test cases trying to sort out the outstanding legal issues.

This means that in most of the Usdaw cases we are waiting to see the outcome of the 'Preston cases' before we can go forward.

The litigation will be a long, slow process and we will keep members informed of developments.

Wherever possible we will try to settle the legal claims.

Negotiated industrial agreements

At the same time as trying to process the legal claims, we are trying to secure collective agreements with employers on the issue.

Our bargaining objectives are:

- To settle the Employment Tribunal claims.
- To try and secure settlement terms for employees who remain at the company but have not yet lodged an application to the Employment Tribunal.
- To get companies to offer some kind of assistance in the lump sum backdated contributions they may ask for.
- To resist any employer claims for 'interest' on these contributions.
- To ensure that late joiners to the scheme (ie joined after their first eligible date) can still make retrospective claims.
- To persuade employers that the six months after leaving employment ruling for claims can be ignored and that they will admit former part-time workers regardless of when they left the company, as long as it was 1976 or later.

Usdaw's Work on Pensions

Usdaw is involved in a whole range of work regarding pensions. We have direct involvement with companies over their pension schemes. We undertake pensions work within our own organisation. We have our campaigning work concerning the aims and objectives we seek for pensions in general. This section looks at all these.

Usdaw still has members covered by Final Salary Schemes

This is still the best possible pension scheme and a good final salary scheme should contain some or all of the following features:

- A cash lump sum on retirement.
- Early retirement provisions, including ill-health retirement.
- Pensionable earnings including bonus and overtime based on final earnings of the best year in the last three.
- Pensions and deferred pensions fully indexed.
- An equality audit to make sure all those covered are treated the same.
- Survivors' benefits of four times final pay for death-in-service.
- High percentage employer contributions.
- No or limited integration.

As this Statement has outlined, final salary schemes are under threat and our work with these is as much about defending what we have already got rather than introducing new final salary schemes.

We still aim for maximum coverage of Final Salary Schemes

We aim to do this even when companies announce they are ending final salary schemes for new starters or those not already in the final salary scheme. When Littlewoods did this we negotiated a 'window of opportunity' which was a last chance option for those existing employees not in the final salary scheme to join it. During this period we ran a campaign aimed at maximum take-up of those workers not covered by the final salary scheme. We would aim to do something similar where other companies announce that they are closing final salary scheme.

But our pensions work is now about much more than Final Salary Schemes

As companies have been reviewing their position on pensions we have seen our work develop away from final salary schemes and into a number of other directions. This has included:

- Negotiating new innovative schemes such as the Tesco Pension Builder (see box below). This is a scheme that is based on career average earnings and is particularly beneficial to those who take a break from work or who have fluctuating earnings over their working life.

The Tesco Pension Builder Scheme

This was introduced in 2001 and is a defined benefit, career average scheme, to which Tesco contribute. It is based on average weekly salary earnings throughout a person's working career with the company.

The benefits of the scheme at retirement include:

- The opportunity to exchange part of the retirement pension for a lump sum.
- A pension payable immediately if a person retires through ill-health.
- Pensions and allowances for a spouse or other dependant and children in the event of a member's death.
- An immediate pension on leaving Tesco after completion of two years' service as a member of the scheme and if you are then over age 50.

- Negotiating brand new pension schemes such as with Ethel Austin (see box below). This shows that, despite all the uncertainties that are surrounding pensions at present, it is still possible to get a company to introduce a pension scheme.

The Ethel Austin Group Personal Pension Plan

Ethel Austin introduced a Group Personal Pension Plan in April 2001. This was after full discussion and involvement with Usdaw. The company agreed to match the contribution rate of the employee, which could be 3, 4 or 5%. These joint contributions, and their investment returns, would be the fund of money from which a pension would eventually be purchased. Other benefits from the scheme are:

- The opportunity to take a tax-free lump sum of up to 25% of an individual's pension fund.
- Complete portability in that an individual could take the pension to another employer if they leave with no transfer out charge.
- Low charges of less than 1% a year.
- A choice of investment options to suit an individual's needs.

Pensions – raising the profile

Despite the achievements we continue to make, our work around pensions has made us acutely aware of the serious long-term damage that is threatening the pensions of many of our members. It is no understatement to say that the situation is now critical. Yet most workers are unaware of how serious the situation is. That is why we have to dramatically up the ante and significantly raise the profile of pensions throughout the work of the Union.

Organising around pensions

To begin with, we have to look at ourselves and our own structures to see if we are able to respond to the dramatic changes that are occurring in the world of pensions. This means such things as:

- Bringing pensions more into the industrial arena. Pensions are deferred pay and have a rightful place on the bargaining agenda. This is especially so at a time when employer changes to schemes are threatening to 'cut' pension payments.
- Ensuring all our officials, but especially those at national and company level, have the best possible understanding of pensions and the issues surrounding them.
- Using our existing negotiating structures to build and develop our pensions work.
- Using our other existing structures, such as our various national and divisional committees, to raise awareness about our overall pensions work and all the various issues associated with pensions.

This means a radical change of cultural perception of what our pensions work is all about.

Campaigning among members

An awareness campaign amongst the membership is not only clearly needed but is already underway. This aims to give basic information about pensions, the alternatives and recent developments. This ADM Statement is part of that process. Other elements have included information leaflets, workshops and publicity material.

This is a sustained, on-going campaign, responding to and informative towards members. It will continue throughout 2002 and beyond.

Member Nominated Trustees

It will also include a drive to get more Usdaw nominated Member Trustees. There is a legal requirement that, at a minimum, one third of Trustees (people who govern the occupational pension scheme) be member nominated. We must ensure that we get as many Usdaw nominated Trustees as possible. They can play a vital role in the pension scheme by being, in effect, the employees' voice on the body that governs the scheme.

That is why we will not only encourage members to become Trustees, but we will be devising an election strategy for use among our major companies at the time of elections for member nominated Trustees. Our aim is to maximise interest and activity among our members at a time of major importance for them regarding pensions.

Once Trustees, we will give them advice, training and regularly send out information to assist them in their work. We will also ensure that they become part of the TUC Trustees' network through which they will receive regular briefings about pension schemes and other pension-related matters.

We would expect these Trustees to work closely with the Pensions Section and to alert us to any possible changes and developments in their company pension schemes. This is so that the appropriate negotiating officer can get involved at the earliest possible opportunity to ensure our members get the best deal possible over their pensions.

Pressurising the Government

While we welcome much of what the Labour Government has done on pensions, there is still more to achieve. That is why we will continue to press the Government:

- To significantly raise the basic State Pension.
- To significantly increase the Minimum Income Guarantee, to limit its means tested elements and to greatly simplify the complex procedure for claiming it.
- To give National Insurance credits to those earning below the £75 Lower Earnings Limit in the same way that it does to workers in the £75 to £89 band of earnings (the band after which actual National Insurance contributions begin to be paid by the employee).
- To introduce a statutory duty on pension schemes to notify all members and recognised trade unions of all proposed changes to the benefit package, and a compulsory period of consultation with trade unions, including disclosure of relevant information.
- To introduce mechanisms to prevent companies winding up or fundamentally changing the scheme rules without the approval of members or any other checks.
- To introduce the right to bargain on pensions when a union achieves statutory recognition.
- To ensure pensions are covered in the Fixed-Term Worker Directive when this becomes law.
- To ensure TUPE regulations are amended to incorporate the protection of pension arrangements.
- To make it a legal requirement that final salary occupational schemes issue, automatically, an annual statement and projected pension to each member in the scheme rather than that member having to request it.
- To introduce a compulsory minimum contribution by employers to pension provision for staff.
- To review the Accountancy Rules and the Minimum Funding Requirement Rules with a view to reversing the trend away from final salary schemes without compromising the security of fund members.
- To review the position and take steps to stem the trend away from final salary schemes. This will mean introducing such incentives as are practicable to support the continuation of existing, and the introduction of new, final salary schemes.
- To allow companies once again to make pension fund membership a condition of service provided the scheme meets certain minimum standards.

We will be using all our channels to put pressure on the Government in these areas. This includes through our Parliamentary Panel of MPs, our presence on the Labour Party NEC and National Policy Forums, and through the work of the National and Divisional Political Committees.

Usdaw
188 Wilmslow Road
Manchester
M14 6LJ
www.usdaw.org.uk

Printed on environmentally responsible paper. Published by Usdaw, 188 Wilmslow Road, Manchester M14 6LJ.