

Pensions Week 18 September 2005

Ignoring the obvious

The Government is already in a right old mess over the Pension Protection Fund. The Fund is heading for the rocks and Government has put a lock on the ship's navigation equipment. It is urgent that this lock is broken at double quick speed.

Pensions Week were quick off the mark and were the first to draw attention to the plight of companies going bankrupt and leaving their pension scheme without the wherewithal to pay past pension promises. I responded to Pension Week's campaign by introducing a private bill into Parliament in December 2002.

The Government did nothing to help and everything to obstruct the passage of that bill. In one sense that was fair enough. The Government wanted to claim the credit for itself. It was quick to claim the credit but slow to the point of paralysis in adopting in full the measure I was proposing.

The Government ignored the means I proposed to foot the bill for the pension deficits for bankrupt firms. I did not believe it right that taxpayers should be asked to cough up yet again. Huge sums remain in the unclaimed assets of banks and building societies. I believed the first call on these funds should be to rescue those pensioners who, despite paying all their contributions to their company's scheme, were left some times without a bean.

The Government's response was to make a charge on taxpayers for these lost pensions, but not to bring forward a sum which would in any meaningful sense make up the black hole in these pension schemes. The Government twisted and turned and has now said that the taxpayer contribution of £400 million will cover the first two years of pension payments. The position then would be reviewed in the review of public expenditure. That review has now been postponed for a year.

The Government also ignored how I suggested the levy should be raised. While logic might demand that those employers whose schemes are in greatest deficit should pay the greatest contributions, and that those firms who look as though they might go under, should pay even larger contributions to ensure the deficit in their pension schemes, common sense would suggest otherwise. The people who have most interest in seeing that their pensions are paid are the employees. I advocated that a uniform levy should be made on all current company pension employee contributors with a separate levy being placed on those with deferred entitlements, and a separate smaller levy being made on pensioners currently drawing a pension which would be related to the size of the pension in payment.

There are other reasons for advocating this approach apart from the simple fact that it is the employee contributors who have most interest in their pension scheme surviving. I have happily swallowed the TUC line that pensions are deferred wages. Again, it is those to whom the deferred wages are owed who have the most interest in seeing that these payments are realised.

There was an additional equally powerful reason for levying the insurance contribution on workers. Once the contribution is placed on employers the Pension Regulator is forced to take into account the size of the pension deficit in each scheme as well as the likelihood of the employer being around in a few years time to continue paying the insurance levy as well as trying to make up the deficit on their individual scheme.

As Gill Wadsworth wrote in Pensions Week (September 12th) the Pension Regulator's decision in calculating a risk-based levy may result in firms going under and the viability of their pension funds with them.

At some stage soon the Pension Regulator will have to publish his risk-based levy. Part of that risk will be the Regulator's interpretation of how near each contributing firm is to bankruptcy.

This is the first time I can recall when any Government inspired agency will publish official tables speculating on the likelihood of firms going under. The publication of these views are likely to become a self-fulfilling prophesy. What are the fund managers of other pension funds likely to do to their investment in those firms when the Regulator suggests that bankruptcy is a real likelihood. They and other investors are likely to sell their shares in those companies at double quick speed.

It is not too late for the Government to draw back on this folly of its own making. But it needs to act quickly. The idea of an employer and a risk-based levy needs to be scrapped. If it is not then a scheme designed to protect future pension payments is likely to be the cause of yet even more

pension funds being pushed into the Pension Protection Fund bringing the fund itself into question.