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PENSIONS TIGHTROPE

by JUSTIN HARPER

COMPANIES that close their generous final salary pension schemes to new staff while keeping them open to existing ones may be breaking the law, the chairman of an influential think tank has warned.

But any attempt to challenge the inequality could sound the death knell for all final salary schemes.

Some of the UK's biggest firms, including Sainsbury's, British Airways, Marks & Spencer, British Telecom and the big four banks, Barclays, HSBC, Lloyds TSB and NatWest, have all done this, penalising thousands of workers who join them.

They argue that the only way to keep final salary pensions going is to restrict the number of people in them.

But **Frank Field** MP, chairman of the Pensions Reform Group and former minister for welfare reform, says running a two-tier system may be unlawful under discrimination law.

He says: 'If you have two identical workers doing the same job yet one has a better pension than the other this is unlikely to stand up legally.'

'A final salary scheme is a valuable perk. Sooner rather than later a new employee will hire a lawyer to argue their case, saying they are being discriminated against. Even if it has to go all the way to the European Court, it will be hard to justify.'

He adds: 'If companies are challenged on this, the easiest thing to do would be to close the scheme down completely for both new and existing members -- hence the end of final salary schemes.'

Adair Turner, who has been commissioned by the Government to investigate why there is a pensions black hole running into billions of pounds, says: 'There is a major issue about this inequality which will have to be addressed.'

Mr Field's group has put forward its own solution to the pensions crisis -- a Universal Protected Pension, which would replace the existing basic state pension and other means-tested benefits. It aims to provide a weekly income of GBP 125 to GBP 150 for pensioners.

But for this to happen, compulsory contributions -- perhaps via National Insurance -- will have to rise by at least five percentage points to fund the higher pensions. Carers of young children and elderly relatives would have their contributions paid for them.

Mr Field says: 'There are no easy **FIND OUT MORE** options to get out of the crisis we are in. Yes, you will have to pay more contributions, but I'm sure you'd choose this above retiring into poverty.'

The Government is taking the proposals seriously. It has asked its own actuarial department to look into the costs of the scheme to see how viable it is.

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