

FOSPEN

RESPONSE TO OPA

DWP Green Paper: Defined Benefit pension schemes – a GAD technical bulletin

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You have asked us, as members of OPA, to comment on the Government's Green Paper.

We would therefore ask you to provide your support to the forgotten members of defined benefit pension schemes who have received no increases in their pensions for many years.

As you will be aware, the present legislation makes no provision for a statutory requirement to enhance any pension entitlement earned before April 1997. This now means that about 2% of DB pensioners (about 100,000 elderly people) are in the unhappy position of having received no pension increases for up to 20 years. These include the Foster Wheeler pensioners in the Amec Foster Wheeler DB scheme who have received no pre-1997 increase, since 2002. They are a now diminishing group, many of whom retired a long time ago when incomes were low compared to the needs of today and who have suffered this unfairness.

We understand that only 8% of companies with no fixed indexation are not paying a discretionary increase. Surely it is now time to make future inflation-linked payments compulsory for pre 1997 earned years of service.

The extra cost of implementing statutory increases in future for pre-1997 entitlements has been estimated at less than one percent (0.6%) of total DB-pension costs (see Parliamentary Hansard, 17th January 2017, debates, Digital Equipment Ltd pension scheme).

The new Government Green Paper excludes the situation of pre-1997 pensioners. Initial parliamentary debate concerning so-called 'discretionary pre-1997' DB schemes has now been pushed under the carpet and the topic has been omitted from the Green Paper. So the financial plight of pensioners with discretionary pensions for pre-1997 service is being ignored and forgotten.

In contrast, the Green Paper gives the impression that all DB pensioners are receiving increases, which is not true. The Green Paper should further the national discussion of the financial plight of the bottom 2% of DB pensioners.

We would like the subject of discretionary pre-1997 DB pension schemes to be included in the Green Paper. Your support in remedying this omission would be greatly appreciated.

BELOW FOR YOUR INFORMATION IS BACKGROUND INFORMATION AND HISTORY OF THE FOSTER WHEELER PENSION FUND

- Foster Wheeler was a US company, which moved its incorporation to Switzerland in 2008.
- The Foster Wheeler Pension Plan (FWPP) commenced on 21st December 1956. Pension increases are stated in the Trust Deeds and Rules as being at the Company's discretion. The Trustees made a recommendation, but the Company made the decision.
- The Trustees have usually made a recommendation each year to pay a discretionary increase. Foster Wheeler generally always paid a pension increase, as custom and practice and announced the increase at the annual lunch for employees and pensioners with 25 years service.
- However the Company has not agreed to do this, since 2002, but said it will consider doing so, as a priority, once the Plan is fully-funded.
- In 2003, until the current date, no pension increases were paid for pre- 5th April 1997 service, with the exception of one payment of 3% in 2006 to pensioners born before 1st April 1925.
- Due to concerns about the sustainability of the fund and the failure to pay discretionary increases, a Foster Wheeler pensioners' group, Fospen, was formed in 2003. Current membership is in excess of 150 members. Fospen has been a member of the Occupational Pensioners Alliance for several years.
- Since its formation, Fospen have been in regular contact with Company and the Trustees of the pension plan.
- The funding level of the Plan fell well below the 100% level and required significant Company injections of funds to improve its sustainability.
- A Recovery Plan was put in place to reach 100% funding by end-March 2014. This objective was not achieved and an extension of the Plan was agreed, with further cash injection of funds, such that full-funding will be achieved by 2021.
- Amec plc acquired all the assets of Foster Wheeler on 13th November 2014, to form a new company, Amec Foster Wheeler.
- The new company is continuing to maintain the same stance as Foster Wheeler did, which means it will not consider paying a discretionary

pension increase until the Plan is fully-funded. Even then, there is no commitment to pay such increases, either written or verbal.

- **Fospen have established and continued to maintain contacts with both the Company, Amec Foster Wheeler, and the Trustees.**
- **In June 2016, after extensive analysis, it was agreed by the Trustees of the Amec pension fund and the FWPP that the two plans will be merged, into a single new scheme, the Amec Foster Wheeler Pension Plan. It is understood that the current funding level of the new fund is 92.6%.**
- **Fospen consider it unacceptable that no discretionary increases have been paid since 2002 (except for the one-off payment). This year will be the 20th anniversary of the 1997 break-point in respect to pension indexation and publication of the government's Green Paper, published in February 2017, is an opportune moment to remedy this situation.**
- **Unfortunately, the Green Paper only mentions discretionary payments twice (items 59 and 353).**
- **Fospen calculate that pensions for pre-1997 service have declined in real-terms by 30%.**
- **Fospen are not seeking retrospective action but seek fairness to restore payment of an increase to compensate for inflation for 2017 and for each succeeding year. It is understood that only 8% of companies with no fixed indexation are not paying a discretionary increase.**
- **Fospen are encouraging its members to seek support from their Members of Parliament, for a change in the law to make inflation-indexed payments compulsory for pre-5th April 1997 service, as they currently are for post-5th April 1997 service.**
- **Fospen support the initiative of the Hewlett Packard Pensioners Association (HPPA), whose members are in a similar situation. They initiated a Parliamentary debate on 17th January with the Pensions Minister, Mr. Richard Harrington, and had support from several MPs. However, despite this debate, there has been no action to include this issue in the Green Paper.**